



STRATEGIC RESOURCE PLAN

2015/16 TO 2019/20

LONG TERM FINANCIAL PLAN

2015/16 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* (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 states that:

- a. The SRP is a plan of the resources to achieve the Council Plan objectives;
- b. The SRP must include:
 - i. the financial statements describing the financial resources in respect of at least the next four financial years;
 - ii. statements describing the financial resources in respect of at least the next four financial years;
 - iii. statements describing the non-financial resources including the human resources in respect of the next four financial years;
 - iv. 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;
 - v. Council must review the SRP during the preparation of the Council Plan and must adopt the SRP no later than 30 June each year and a copy must be available for public inspection at the Council office and internet web site.
- c. Significant changes to this revised SRP 2015/16 are:
 - Council will increase municipal rates and municipal charge collections by **4 percent** in the 2015/16 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;
 - Capital Expenditure is **\$6.8 million** in 2015/16; and
 - New borrowings of **\$0** million in 2015/16.

1.2 Purpose of SRP

The purpose of the SRP 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 (non-financial resources are assumed to include human resources and Council's asset base, which are all referred to in various parts of the SRP);
- 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 *Local Government Act (1989)* 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 2015/16 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 levels below prudential guidelines;
- 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 2015/16 Budget.

Section	Strategic Direction
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Section	Strategic Direction
<p>Section 3 Financial Sustainability</p>	<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. 1. That Strathbogie Shire Council applies the outcomes of this SRP to the 2015/16 Budget. 2. That Strathbogie Shire Council reduces its operating deficit over the life of this SRP and reaches an adjusted operating surplus within 2 years.
<p>Section 4 Service Provision and Planning</p>	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council commence the Service Planning process in 2015/16 via a strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan leading to a determination of the appropriate range and levels of service for the community. 1. 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.
<p>Section 5 Capital Works</p>	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council increases its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program. 1. 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 7 (Section 6.6 Condition Assessment), with the next priority on upgrade, new and expansion. 2. That any bids for expansion, new and upgrade of assets come from the Service Managers as arising from their Service Plans.

Section	Strategic Direction
<p>Section 6 Asset Management</p>	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council, having established its critical renewal investment levels, completes detailed <i>Asset Management Plans</i> (focused on renewal demand) for all classes of Council assets incorporating service level assessments. 1. 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. 2. 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.
<p>Section 7 Long-term Borrowing Strategies</p>	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council based on Better Practice Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and 1. That Strathbogie Shire Council retains its debt servicing and redemption costs at or below 5 cents in the rate revenue dollar, towards interest and principal, over the life of this SRP.
<p>Section 8 Restricted Assets</p>	<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 \$3.0 million to \$4.0 million in working capital to meet day to day needs. 1. That to ensure sufficient funds are available to meet operational needs, Strathbogie Shire Council retains a cash position of at least \$3.0 million to \$4.0 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
<p>Section 9 Rating and Other Revenue Strategies</p>	<p>That Strathbogie Shire Council;</p> <ol style="list-style-type: none"> 1. retains capital improved value (CIV) as its valuation base; 1. provides a municipal charge that approaches 10 percent of rate revenue plus the municipal charge to ensure an equitable contribution towards the unavoidable fixed costs of Strathbogie Shire Council; 2. considers future increases in environmental levy and waste based on EPA, regulatory and safety requirements and the need to sustain the Council’s long term waste operations strategy as well as providing for general roadside tree maintenance; 3. in 2015/16, adopts an 4 percent increase in total revenue for general rates and municipal charges and a 6.57 percent overall increase in total rates and charges which represents 63.7% of the total revenue 4. including funding the cost of disposal of domestic waste, recycling collection, organics collection and the transfer station/tree management program; 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.
<p>Section 10 Strategic Financial Plan</p>	<ol style="list-style-type: none"> 1. That Strathbogie Shire Council finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery through the annual budget process.

Table 1: Key Strategies– 2014/15

2. LINK BETWEEN STRATEGIC RESOURCE PLAN AND COUNCIL PLAN

2.1 Planning and Reporting Framework

The **Planning and Reporting Framework** details the relationship between the Council Plan, Service Strategies, Service Plans and the underlying assets that support the delivery of services.

The Framework also shows the relationships with the community and the funding sources.



Figure 2: Planning and Reporting Framework

3. FINANCIAL SUSTAINABILITY

3.1 Background

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

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

It is against this definition that the sustainability of **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; 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 your Council to enable this comparative analysis to occur.

3.2 Financial Comparisons - Benchmarking

Council Annual Reports generally contain standard and consistent financial data.

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

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

Category Description	Councils within Category
Inner Melbourne	16
Outer Melbourne	15
Regional Cities	11
Large Shires	16
Small Shires	21
TOTAL	79

Table 2: Number of Councils in each Category– 2013/14

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.

3.3 Analysis of Council’s Financial Sustainability

3.3.1 Financial Sustainability

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

Councils are perpetual corporations that manage intergenerational community services and assets. Councils provide the legal framework by which communities own infrastructure and assets collectively.

Underlying Operating Position (Surplus/Deficit)

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

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

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

One of **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 compares unfavourably within the **Small Rural** category at **\$0.43 million** for underlying operating deficit at June 30 2014.

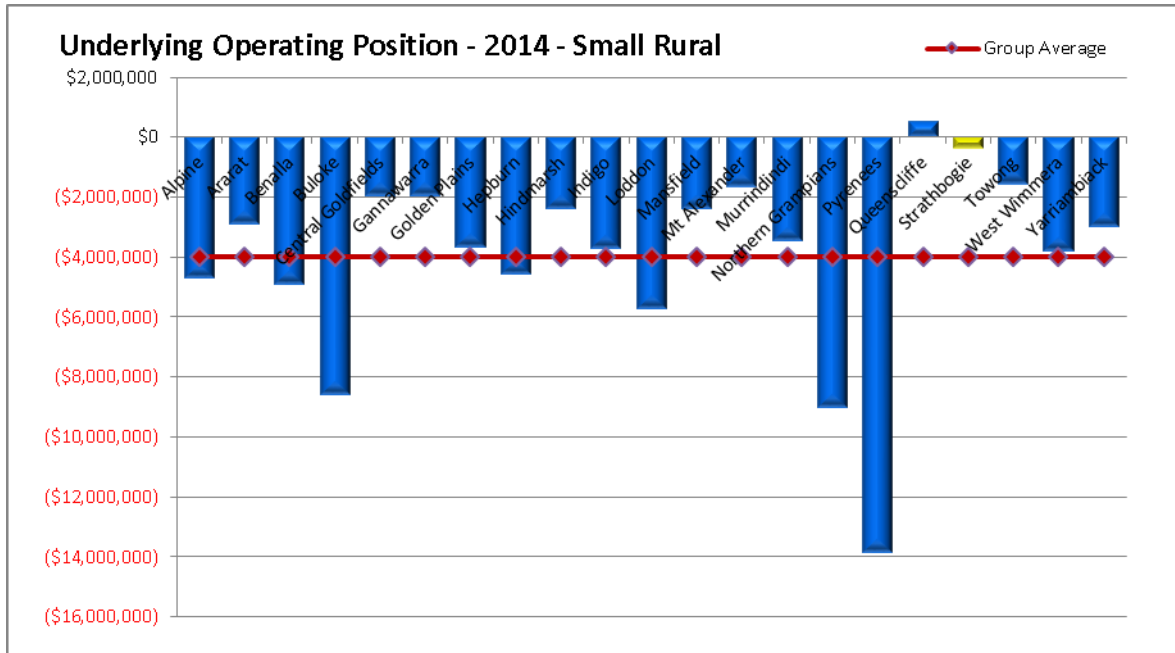


Chart 1: Underlying Operating Deficit – 2013/14

Liquidity

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

Council's working capital ratio of **1.61 percent** indicates Council's liquidity is declining in the medium term, with projections to improve from 2017-18.

Rate effort

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

Council's rating effort has been satisfactory although when benchmarked was above the average effort of the **Small Rural** group.

Cost and efficiency

Council is statistically a "mid cost" council.

Adjusted total Expenses per assessment are well above the Small Rural average of \$2,500 at **\$3,400** while Council's employee cost as a percentage of total adjusted expenditure is **39.6 percent**, compared to **Small Rural** average of **38 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.

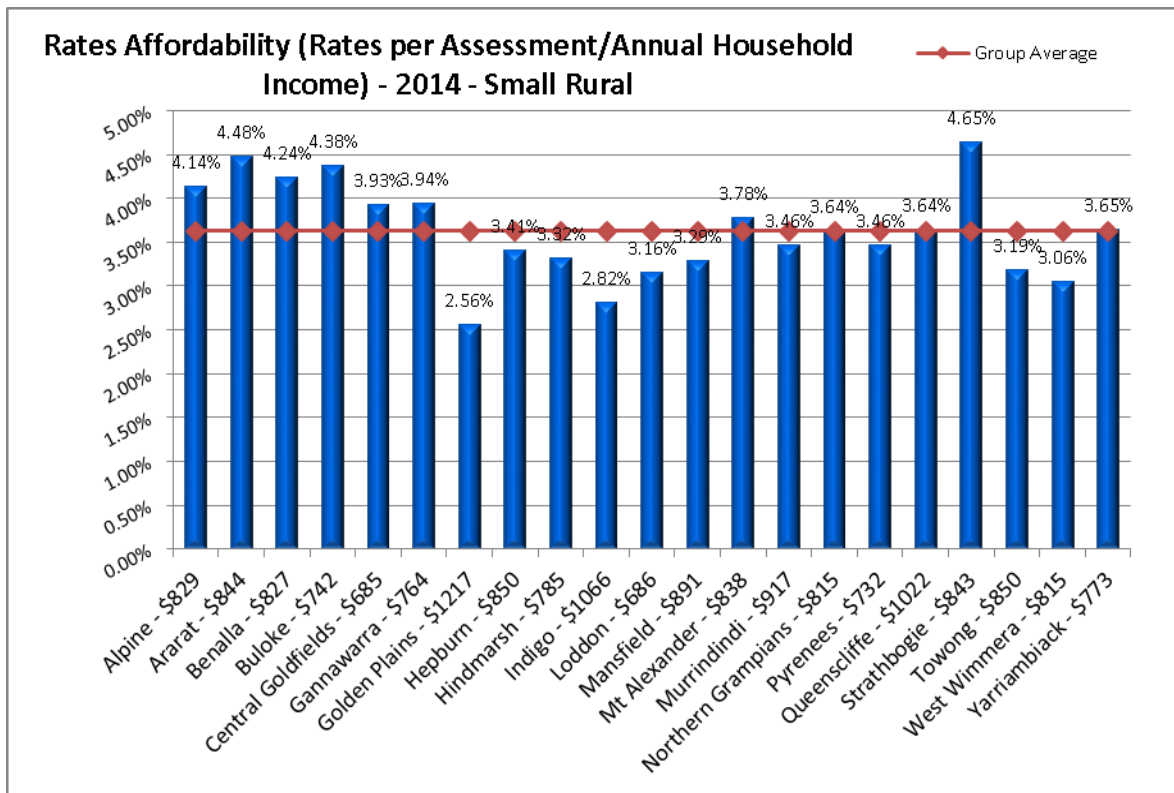
The *Australian Bureau of Statistics* (ABS) produces a set of social and economic indices known as SEIFA. The four indices in the set, which are based on census data, reflect the level of social and economic wellbeing in local government areas. SEIFA includes the following indices:

Advantage/Disadvantage: The proportion of families with high incomes, people with a tertiary education and employees in skilled occupations. Low values indicate areas of disadvantage;

Disadvantage: Derived from attributes such as income, educational attainment, unemployment and dwellings without motor vehicles;

Economic Resources: Relating to family income, rent paid, mortgage repayments and dwelling size; and

Education and Occupation: Covering the proportion of people with a higher qualification or those employed in a skilled occupation. 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 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 – 2013/14

3.3.2 Victoria Auditor General

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

The 2012/13 result compared to the five (5) year average for VAGO’s indicators of Council viability are:







Indicator	Calculation	Description	Results 2013/14	Five (5) Year Ave	Actual Trend
Underlying result	Adjusted net surplus/total underlying 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. Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustments.	0.43%	4.82%	
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	1.61	1.74	
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.	16.26%	21.97%	
Self-financing	Net Operating cash flow/underlying revenue.	Measures the ability to replace assets using cash generated by their operations. The higher the percentage, the more effectively this can be done.	32.37%	27.85%	
Investment Gap	Capital Spend: Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.	1.41	1.44	
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 greater than the depreciation rate. Similar to the investment gap, 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.	1.25	1.04	

Table 3: Strathbogie Shire Council VAGO Indicators of Council Viability

3.4 Benchmarking

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

- Underlying operating deficit;
- Lower levels overall operational costs in comparison to Councils in the category;
- High rating effort;
- Average debt ratios; and
- Growing capital works program with sufficient priorities given to asset renewal.

Strategic Direction

2. That **Strathbogrie Shire Council** continues to benchmark with other Victorian Councils and those within the **Small Rural** category.
3. That **Strathbogrie Shire Council** applies the outcomes of this SRP to the 2015/16 Budget.
4. That **Strathbogrie Shire Council** reduces its operating deficit over the life of this SRP and reaches an adjusted operating surplus within **2** years.

4. SERVICE PROVISION AND PLANNING

4.1 Introduction

The range and level of services a Council should, or is capable of, or wants to provide is a complex question to consider. It is critical that an overall understanding of the **Service Planning Framework** be considered within the context of the key service drivers including:

- Community expectations: Ever changing and balanced against willingness to pay;
- Legislative requirements: e.g. Health and environmental standards, regulations;
- Organisational: Strategic Mission and Objectives;
- Resources: Availability of resources and funding; and
- Measurability: Tangible and intangible benefits.

This section includes:

- Local Government Service Planning
- Introducing a Service Planning approach
- Service Planning approach and the six key steps
- Links to Council's Service Plan;
- Conclusion

4.2 Local Government Service Planning

4.2.1 *Service Delivery challenges*

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

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

In 2015/16 Council will begin a six phase **Service Planning** project to facilitate answers to these questions – Council’s long term financial sustainability is critically linked to answering these fundamental questions.

4.2.2 What is Service Planning

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

Service Plans identify assets (upgrades or new) required to support those services and reviews the outcomes of Asset Management Plans to ensure existing assets are appropriate for the delivery of services required. Actions are specific, based on a 10 year horizon. Having detailed **Service Plans** with costed levels of service allows comparative choice decisions to be made in a transparent manner when budget adjustments are required.

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

4.2.3 Service Planning Principles

The following principles underpin the **Service Planning** methodology:

- **Alignment:** Services align with the strategic goals (Council Plan) and priorities of Council.
- **Clarity:** Be transparent about the context and scope of the service or activity.
- **Customer focussed:** The services provided should be responsive to the customers’ needs.
- **Outcome focussed:** Service Plans should focus on achieving outcomes.
- **Co-ordination:** Conflict and overlap between service areas should be minimised.
- **Efficiency:** Service quality must be sustainable and cost effective.
- **Effectiveness:** The service portfolio must provide value to the community.
- **Accountability:** Accountability and reporting framework to measure performance and the achievement of outcomes.

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

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

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

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

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

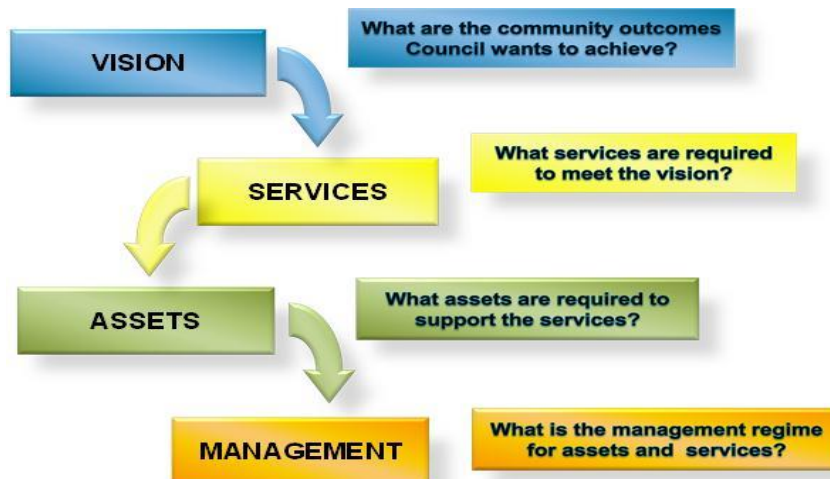


Figure 3: Strategic Service Framework

4.3 Introducing a Service Planning Approach

4.3.1 Understanding Levels of Service

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

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

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

4.4 Service Plan Process: 6 Key Steps

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

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

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

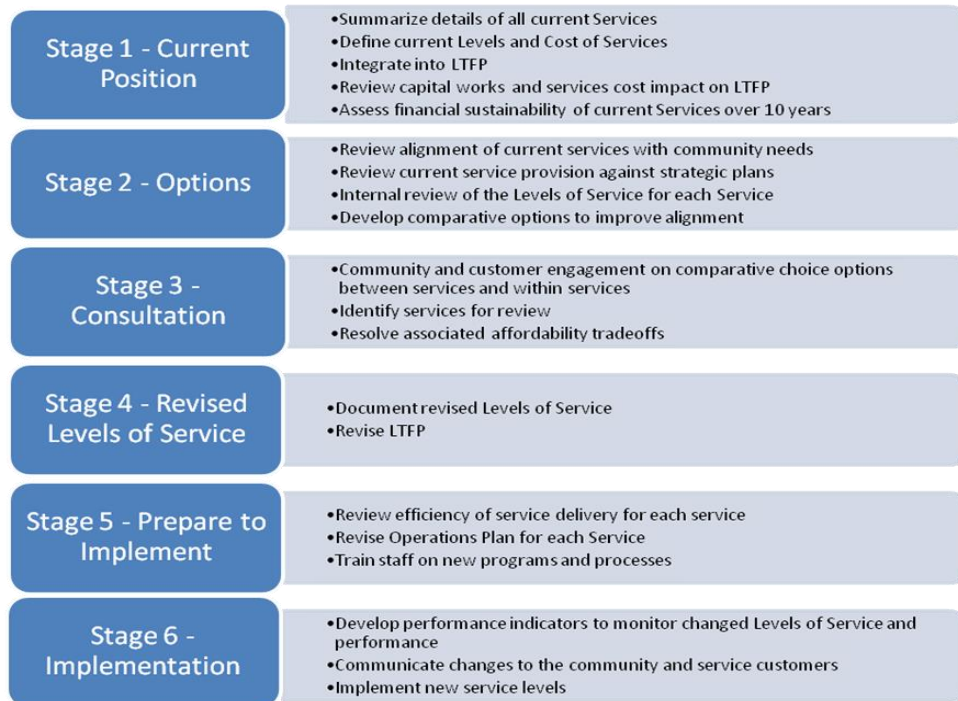


Figure 4: Service Plan Process - 6 Key Steps

4.4.1 Stage 1 – Current Practices Sustainability Assessment

Most of the services Council provides will have been identified through the *Functional Span Mapping* exercises and basic information recorded in the *Activity Statements*.

This first stage will take a holistic approach and prepare a 10 year service summary for all services to assess the long term sustainability of the service model then identify services for review. At the end of **stage 1** Council will have a detailed understanding of the:

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

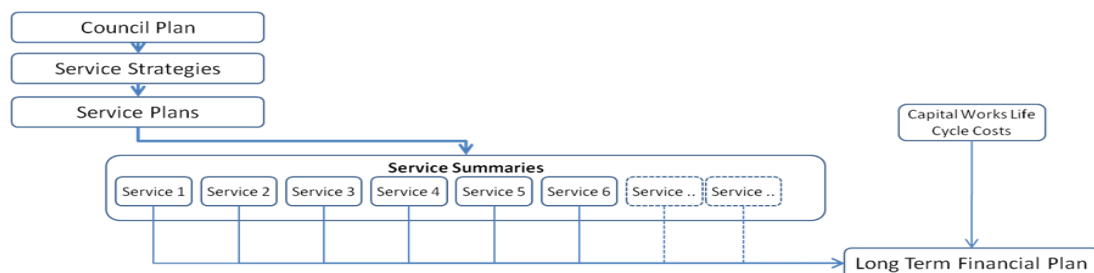


Figure 5: Current Practices Sustainability Assessment

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

4.4.2 Council Budget

Council’s operation includes provision of building, planning, economic development services, community services, infrastructure planning, operations and corporate support services including finance, information technology, asset management and organisation development. Council’s operating costs and revenues for 2013/14 are **\$25 million** and **\$26 million** respectively with forecasts for the next 10 years contained in **Appendix B**.

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

4.4.3 Human Resource Needs

Council’s Human Resources are integral to the delivery of Council’s services. Council’s overall adjusted operating expenses per assessment (adjusted to remove depreciation) in the graph below show Councils total operating costs benchmarked to like sized Councils. Council’s operating costs per assessment are higher than average and Council’s employee costs are on the average. Employee costs are one element of these costs – Councils use employees or contractors to deliver services. Council’s employee costs as a percentage of adjusted operating expenses and benchmarked to similar sized Councils in Victoria are also detailed hereunder:

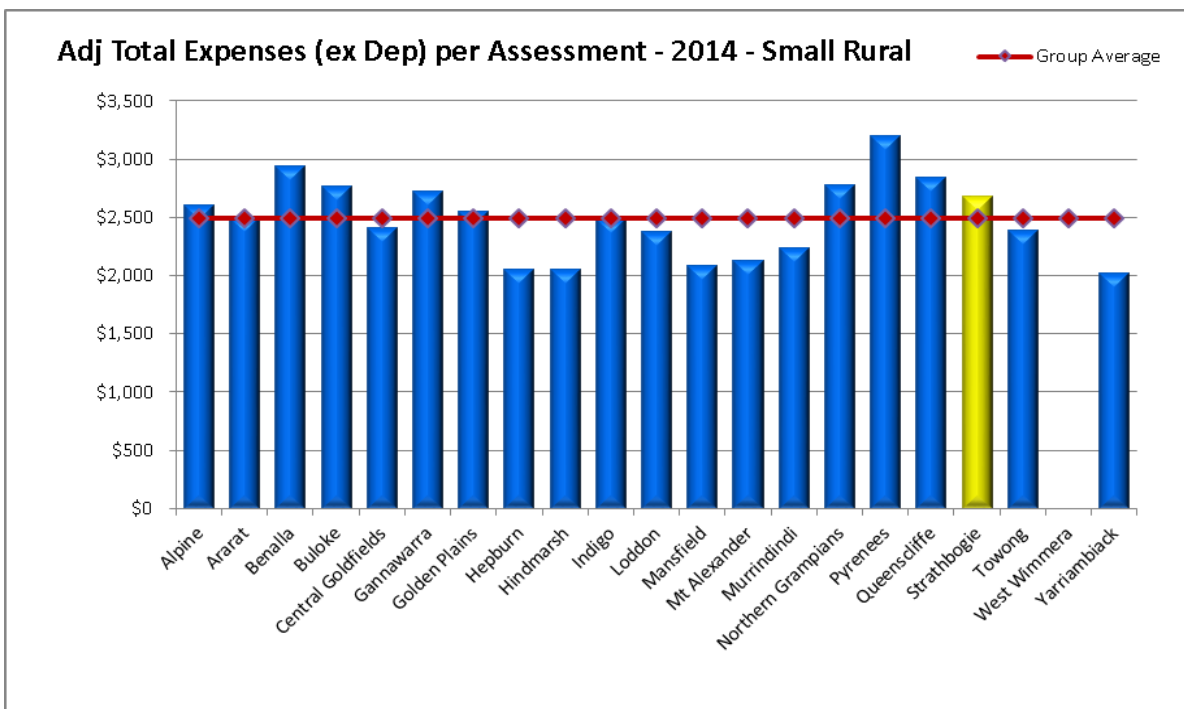


Chart 3 - Adjusted Operating Expenses per Assessment 2013/14

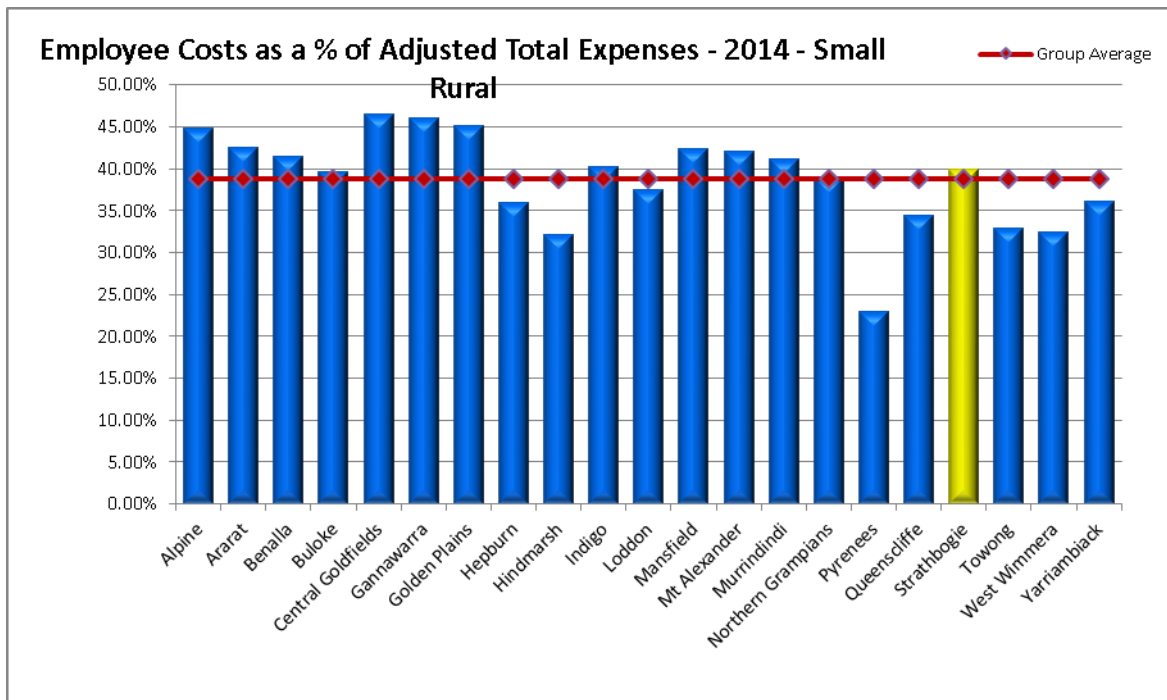


Chart 4 - Employee Costs % Adjusted Operating Expenses 2013/14

Table 4 details the *Statement of Human Resources* for the oncoming four years:

	2014/15	2015/16	2016/17	2017/18
	\$'000	\$'000	\$'000	\$'000
Staff Expenditure				
Employee Costs	9,428	8,317	8,567	8,824
Total staff expenditure	9,428	8,317	8,621	8,935
	EFT	EFT	EFT	EFT
Staff numbers				
Employees	118	97	97	97
Total staff numbers	118	97	97	97

Table 4 - Statement of Human Resources - For the four years ended 30 June 2018

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

4.5 Conclusion

Managing financial sustainability and the range and level of services provided will remain an ongoing challenge.

This work continues in the context of improving financial sustainability, linking infrastructure planning to service planning and resource constraints. Council will demonstrate clear and transparent decision making in allocating scarce resources whilst delivering the best service outcomes from amongst the many alternatives demanded by the community, a critical outcome of the proposed service planning framework.

Strategic Direction

5. That **Strathbogie Shire Council** commence the Service Planning process in 2015/16 via a strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan leading to a determination of the appropriate range and levels of service for the community.
6. 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.

5. CAPITAL WORKS PROGRAM

5.1 Introduction

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

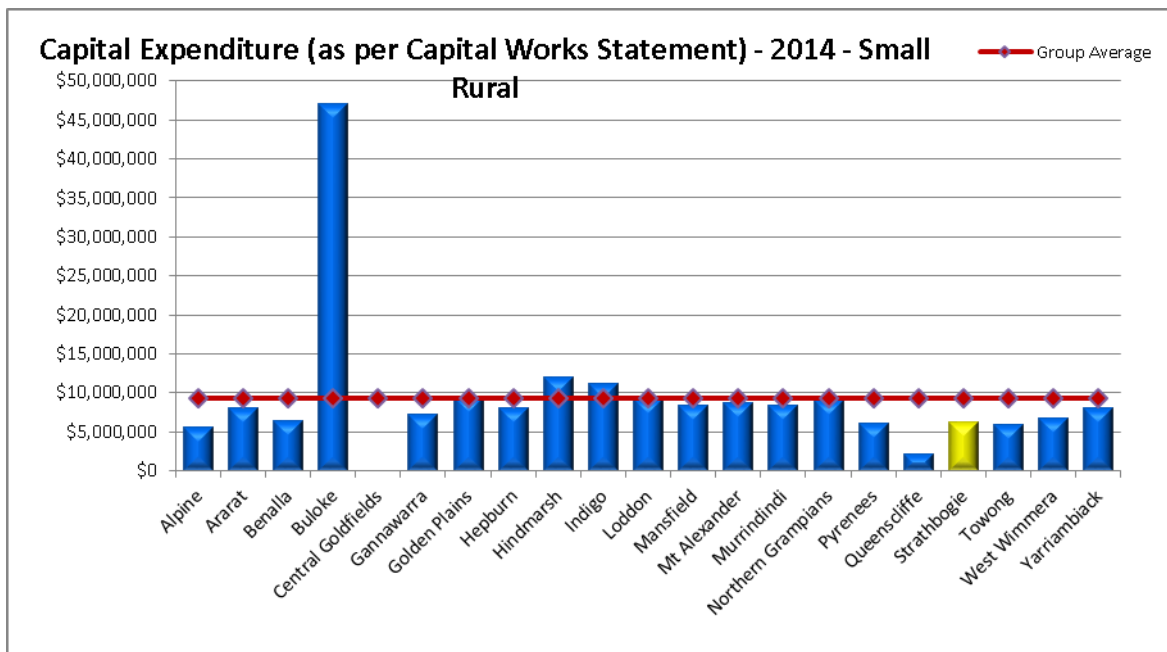
It should be noted 94.5 **per cent** of the capital expenditure is on renewal and upgrade type projects in the capital works program for 2014/15. The total capital program of **\$9.6 million** is composed of **\$0.523million** in new assets and **\$9.0 million** in renewal and upgrade.

The proposed program for 2015/16 comprises **\$6.2 million** in renewal and **\$0.4 million** in upgrade.

This section includes:

- Level and nature of capital works;
- Capital funding sources; and
- Capital Works Evaluation process

The benchmark for 2013/14 capital expenditure levels by Small Rural's is illustrated



below:

Chart 5: Capital Expenditure per Capital Works Statement – 2013/14

Capital expenditure per assessment is lower than average in 2013/14 at **\$2,100** per assessment as compared to **\$1,668** for the average **Small Rural's**.

5.2 Level and Nature of Capital Works

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

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

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

5.2.1 Capital works 2015/16 - 2024/25 – Parameters

The following are the parameters against which the 2015/16 capital works program has been developed:

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

In terms of the longer term program to 2024/25 the following parameters/assumptions apply:

- Large one-off projects flagged in subsequent years require accurate costing to be undertaken and their timing and priority finalised;
- Continue priority on renewal, followed by upgrade with expansion and new, the most discretionary;
- Provide for expenditure growth required to level of sustainable renewal to meet the community's service level requirements (based on current Asset Management and Service Plans) by 2022/23;
- Income assumptions to remain conservative given they are less predictable; and
- Roads to Recovery income assumed to continue at current level spread across relevant projects within the Roads Program.

5.3 2015/16 Capital Investment Levels

The 2014/15 and 2015/16 capital works program by expenditure type is detailed hereunder:

Capital Expenditure Type	2014/15 \$'000	2015/16 \$'000
Renewal	7,937	6,216
Upgrade	1,101	407
New	523	147
Expansion	0	0
TOTAL	9,561	6,770

Table 5: Capital Works Summary – 2014/15

5.4 Capital Funding Sources

The development of a 10-year capital works program will enable a precise cash flow budget to be developed. This program will be refined during the 2015/16 financial year by Council's Infrastructure Development department.

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

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

5.5 Capital Works Evaluation Process

5.5.1 Business Case

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

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

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

- Financial,
- Council Plan objectives,
- Risk/Criticality ;and
- Community Benefit.

Responsibility for the capital works **Business Case Analysis Process** is vested in the Council Infrastructure Directorate but scoring is overseen by the cross functional Reference Group with membership and terms of references endorsed by Council. The results of the *Business Case Analysis* are contained in Council's Capital Works Evaluation Model.

5.5.2 Whole of Life Costing

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

Over the life of this SRP whole of life costs arising from new and upgrades total **\$4.0 million** and over the **10** year long term financial plan the total **\$11.2 million**.

5.6 Conclusion

Council's capital works program underpins the needs and priorities as determined by Council's capital evaluation process. It is the Council's challenge to develop *Service Plans* and *Asset Management Plans* that ensure the community's levels of service are met through the delivery of efficient and effective services.

Strategic Direction

7. That **Strathbogrie Shire Council** increases its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program.
8. That **Strathbogrie Shire Council** initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 7 (**Section 6.6 Condition Assessment**), with the next priority on upgrade, new and expansion.
9. That any bids for expansion, new and upgrade of assets come from the Service Managers as arising from their **Service Plans**.

6. ASSET MANAGEMENT

6.1 Introduction

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

This section includes:

- Background to Council's total asset portfolio at 30 June 2014;
- Summary of fixed assets;
- Key questions to determine service level/investment;
- Asset investment;
- Condition assessments; and
- Strategic asset management.

6.2 Council's Asset Portfolio - 30 June 2014

6.2.1 Current Assets

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

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

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

This asset grouping includes cash at bank, investment funds, stock on hand, debtors and land held for resale. The balance of current assets held by **Strathbogie Shire Council** at 30 June 2014 was **\$10.7 million**.

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

Fixed assets consist of land, buildings, plant, furniture, roads, drains, playgrounds and other similar infrastructure assets. The total value of fixed assets at 30 June 2014 is **\$234 million**. The balance of this section will focus on the fixed assets and the management strategies that Council is pursuing.

6.2.2 Non-Current Fixed Assets

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

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

Council's fixed assets and land held for resale at 30 June 2014 total **\$234**.

6.2.3 Depreciation Expense

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

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

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

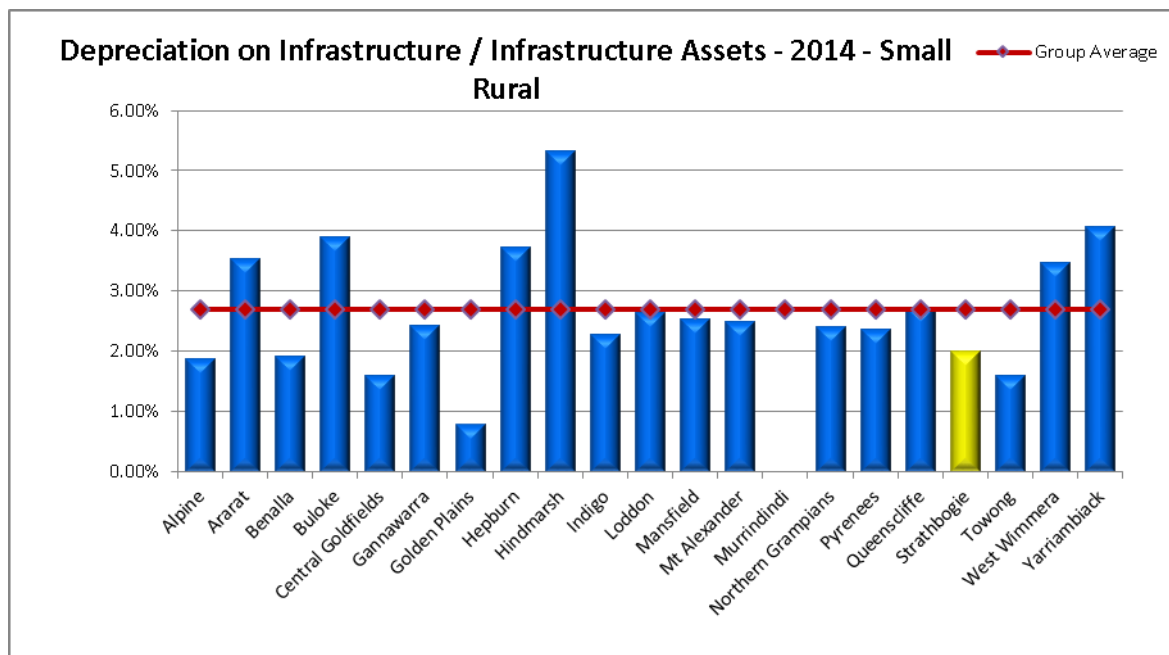


Chart 6: Depreciation on Infrastructure/Infrastructure Assets – 2013/14

6.3 Key Questions to Determine Service Level/Investment

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

1. How much does it cost ratepayers to retain the current infrastructure portfolio, that is, what is the long-term average cost of renewal plus maintenance?
2. What assets support services and should be renewed and retained as opposed to assets that are surplus and should be rationalised?
3. How much will need to be spent in the short term (next 10 years) relative to the renewal expenditure invested in the recent past?
4. How much more management effort (financial and operational) will be required of Council as its assets age?
5. What assets are at the "at risk" phase (intervention level) of their life cycle and will ultimately result in their being unserviceable and unsafe?

6. What outcomes would the community and Council like to achieve with respect to asset upgrades? For example, would Council like to see an extension to the sealed road network, or playground network?
7. Are the Council assets providing the level of service expected by the community?
8. What assets should the community “manage for decline” – public halls, buildings, bridges, roads?

6.4 Asset Investment

Asset investment can be made in the following ways:

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

Table 6: Expenditure Definitions – Asset Management – 2013/14

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

6.5 Condition Assessment

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

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

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

6.6 Management Systems

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

Council has 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 record asset condition and asset defects/inspection details; it should also provide financial management and year-end accounting and valuation data.

Priority is on funding the annual renewal annuity based on predetermined service levels generally described as intervention levels- the maximum level an asset can deteriorate to prior to renewal investment. The intervention level is theoretically where the economic life is no longer worth continuing with 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 - Link and Coll	7.5
Urban Roads Group	Pavement (Low Traffic) Urban - Access	8.0
Urban Roads Group	Asphalt Seal (High Traffic) Urban	8.0
Urban Roads Group	Asphalt Seal (Low Traffic) Urban - All Asphalt	8.0
Urban Roads Group	Spray Seal (High Traffic) Urban Link & Coll	7.5
Urban Roads Group	Spray Seal (Low Traffic) Urban Access	7.5
Urban Roads Group	All Kerbs	8.0
Rural Roads Group	Pavement (High Traffic) Rural - Link and coll	7.5
Rural Roads Group	Pavement (Low Traffic) Rural Access	8.0
Rural Roads Group	Spray Seals (High Traffic) Rural	7.0
Rural Roads Group	Spray Seals (Low Traffic) Rural	7.0
Rural Roads Group	Shoulder Pavement (High Traffic or Narrow Seal)_not modelled	8.5
Unseal Road Group	Unsealed Pavements P/M	8.0
Unseal Road Group	Pavement (High Traffic) Unsealed - P10 Roads	6.0
Unseal Road Group	Pavement (Low Traffic) Unsealed - P5 Roads	6.0
Saleyards, TS & Levee Banks	16 Not Modelled	8.0
Saleyards, TS & Levee Banks	17 Not Modelled	8.0
Pathway Group	Concrete Pathways & areas	7.0
Pathway Group	Brick Paved Pathways & areas	7.0
Pathway Group	Sealed Pathways	7.0
Pathway Group	All other Pathways - Gravel	7.0
Bridges Group	Long Life Bridges & Major Culverts	8.0
Bridges Group	Short Life Bridges	8.0
Storm Water Group	Pits	8.0
Storm Water Group	Pipes	8.0
Buildings Group	Structure Long Life	8.0
Buildings Group	Structure Short Life	8.0
Buildings Group	Roof Structure	8.0
Buildings Group	Mechanical Services	8.0
Buildings Group	Building Fit Out	8.0
Recreation Group	Street & Park Furniture, Boardwalk	8.0
Recreation Group	Oval Grass Surface	8.0
Recreation Group	Manicured Turf & Synthetic (Bowling Greens etc)	8.0
Recreation Group	Play Equipment	8.0
Recreation Group	Bores,pumps and oval irrigation	8.0
Recreation Group	fences, roads & hard stand areas & lighting	8.0
Plant, Vehicles & furniture Group	IT & Furniture	10.0
Plant, Vehicles & furniture Group	Plant	10.0
Plant, Vehicles & furniture Group	Motor Vehicle	10.0
Plant, Vehicles & furniture Group	40 Not Modelled	5.0

Table 7: Intervention Levels by Service Area – Asset Set – 2013/14

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

6.7 Strategic Asset Management

Council reviews its *Asset Management Policy* reviewed on a biennial 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 cash-flow forecast. • Key asset management improvement actions including resources/timeframes.

Table 8: Asset Management Plan Objectives & Document Content

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

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. Council may also consider that a 2% renewal gap may be financially achievable

6.7.1 Community Consultation

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

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

The target for Council in 2015/16 will be to engage Council and the community in discussions about **levels of service** to provide the opportunity for differing service levels to be costed and reviewed.

Sound Asset Management is:

- Knowing what assets we own (Asset Register);
- Understanding the condition and expected lives of our assets;
- Knowing what 'levels of service' customers want- service planning;
- Having processes in place to establish priorities and allocate funds;
- Knowing the long-term funding requirements associated with our assets; and

- Having documented *Asset Management Plans* detailing levels of service will be a challenge during 2015/16.

What services, including their performance levels, are required to meet the community outcomes?

Finally what infrastructure or assets are required to support the service level?

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

6.7.2 Asset Management 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*.

6.7.3 Renewal Demand

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

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

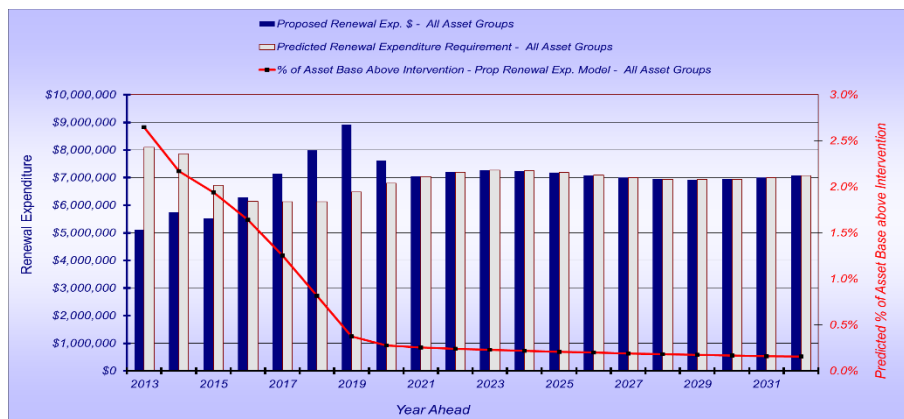


Chart 7: Proposed and Predicted Renewal Expenditure Chart– 2013/14

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

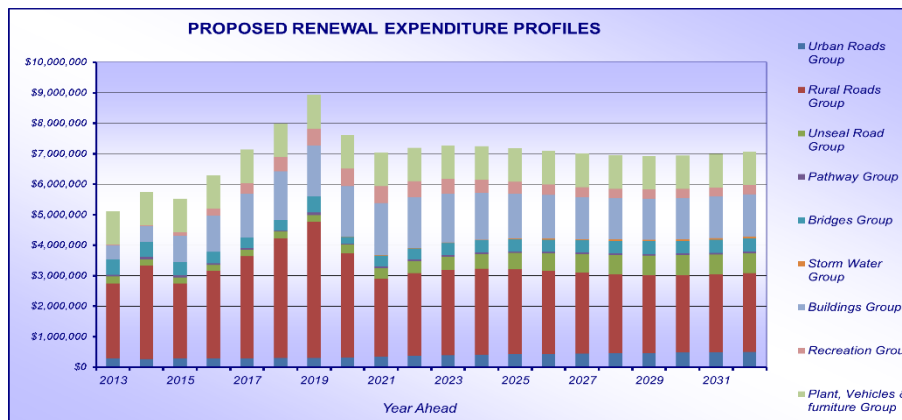


Chart 8: Proposed Renewal Expenditure Profiles Chart – 2013/14

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

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

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

6.8 Conclusion

Council’s priorities for the 2015/16 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 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

9. That **Strathbogrie Shire Council**, having established its critical renewal investment levels, completes detailed *Asset Management Plans* (focused on renewal demand) for all classes of Council assets incorporating service level assessments.
10. That **Strathbogrie 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.
11. That **Strathbogrie 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.

7. BORROWING STRATEGIES

This section includes:

- Measuring what level of debt is appropriate;
- Borrowing Assessment Policy;
- What do Financial indicators mean;
- What is a Prudent level of debt; and
- Future Loan Program.

7.1 Measuring Which Level of Debt is Appropriate

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

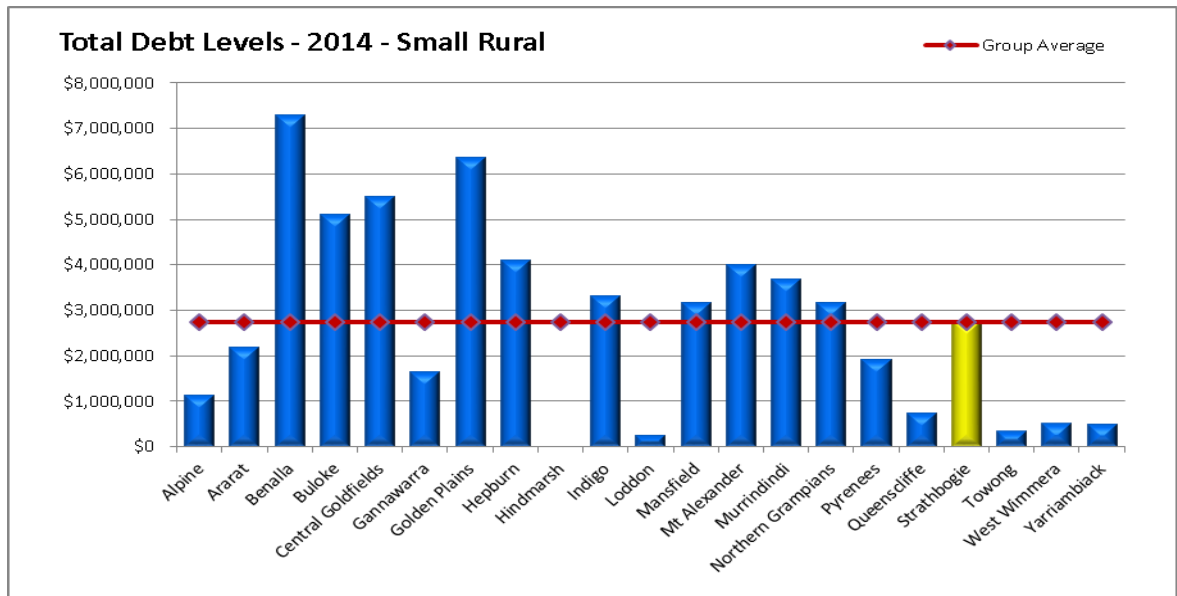
The following factors are seen as important issues for deliberation by Council:

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

The table below highlights the relative debt levels of Councils within the **Small Rural** grouping at 30 June 2014. 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.

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


Chart 9: Comparison of Total Debt Levels within Small Rural Group 2013/14

Council	Debt Servicing / Adj. Total Revenue	Debt Commitment / Rates	Total Liabilities / Realisable Assets	Debt Commitment / Own Source Revenue	Total Debt / Own Source Revenue	Total Debt / Rate Revenue
Alpine	0.35%	1.82%	1.55%	1.51%	6.35%	7.66%
Ararat	0.16%	1.04%	3.23%	0.92%	13.95%	15.79%
Benalla	1.67%	12.24%	9.35%	9.92%	41.97%	51.75%
Buloke	0.83%	6.60%	13.70%	5.56%	41.29%	48.98%
Central Goldfields	1.14%	4.41%	9.35%	3.41%	37.09%	47.90%
Gannawarra	0.75%	4.91%	3.15%	3.25%	10.40%	15.72%
Golden Plains	1.10%	4.24%	7.63%	3.28%	29.52%	38.14%
Hepburn	1.13%	7.50%	3.93%	6.23%	21.14%	25.44%
Hindmarsh	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Indigo	0.71%	4.54%	4.33%	3.22%	18.11%	25.59%
Loddon	0.13%	2.42%	0.36%	1.72%	2.14%	3.01%
Mansfield	0.92%	4.59%	8.00%	3.97%	24.47%	28.29%
Mt Alexander	0.89%	4.72%	5.00%	4.10%	19.28%	22.17%
Murrindindi	1.32%	7.59%	1.83%	5.93%	18.42%	23.55%
Northern Grampians	0.68%	3.80%	3.94%	3.03%	17.80%	22.32%
Pyrenees	1.15%	5.39%	4.14%	4.56%	21.21%	25.06%
Queenscliffe	0.52%	4.70%	1.36%	3.35%	9.10%	12.75%
Strathbogie	0.61%	4.06%	3.50%	3.58%	16.03%	18.18%
Towong	0.28%	1.53%	1.12%	1.18%	3.96%	5.15%
West Wimmera	0.16%	1.81%	1.76%	1.12%	5.28%	8.57%
Yarriambiack	0.38%	2.24%	1.44%	2.35%	5.18%	4.94%
Average	0.71%	4.29%	4.22%	3.44%	17.27%	21.47%
Median	0.71%	4.41%	3.50%	3.28%	17.80%	22.17%

Table 9: Council Comparison Debt Levels within Small Rural Group – 2013/14

In order to track the trend in **Strathbogie Shire Council** debt position, the table below confirms that debt levels will decrease by **\$0.626 million** from 30 June 2014 to 30 June 2015.

In line with the decrease in loan liability, relative debt ratios for the **Strathbogie Shire Council** will remain well within *State Government Prudential Guidelines* throughout the life of the SRP.

7.2 Borrowing Assessment Policy

Strathbogie Shire Council assessed its capacity to borrow against the (Better Practice) former Victorian State Government's Prudential Guidelines.

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

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

All borrowings by individual Councils are assessed under a borrowings assessment policy adopted by the Local Government Division. The policy identifies key areas of financial management with certain thresholds that are required to be met.

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

Area	Financial Indicator	Threshold (Prudential Guidelines)	Position 2013/14	Budget 2014/15
Liquidity	Current Assets to Current Liabilities	1.5%	1.6%	1.6%
Debt Exposure	Total liabilities over total realisable assets	50%	3.5%	3.5%
Debt Servicing	Debt Servicing Costs as a % of Total Revenue	5%	0.7%	0.6%
Debt Commitment	Debt Servicing and Redemption Costs as a % of Rate Revenue	10%	3.7%	4.5%

Table 10: State Government Prudential Guidelines– 2013/14 to 2014/15

Strathbogie Shire Council is well within the State Government Prudential Guidelines as at 30 June 2014.

7.3 What do the Financial Indicators Mean?

The graphs below detail the previously mentioned financial indicators and present the council's position graphically. The threshold detailed against each indicator is the minimum level council must meet in order to achieve approval to borrow from the State Government. To encourage longer term planning by councils, the framework also includes an assessment of reasons for the new borrowings.

This rationale is explained in the council's policy, which is to fund long term intergenerational assets from loan funds to ensure intergenerational equity. **Strathbogie Shire Council's** forecast is within the State Government prudential guidelines at June 30, 2014 for most indicators.

7.3.1 Liquidity

How measured Current assets over current liabilities

Threshold 110 percent or higher

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

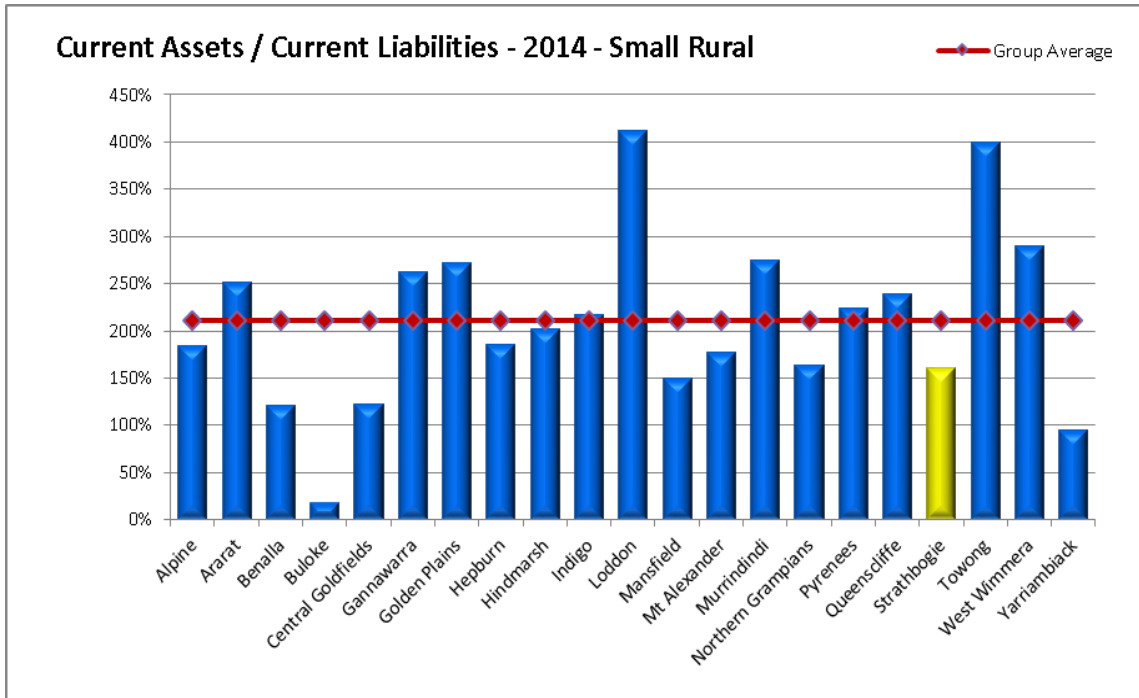


Chart 10: Current Assets / Current Liabilities – 2013/14

Strathbogie Shire Council's working capital ratio as at June 30, 2014 was 160 percent (that is, current assets over current liabilities), which is in excess of the 110 percent benchmark, which would be the minimum acceptable level.

7.3.2 Debt Exposure

How measured Total liabilities over total realisable assets

Threshold 50 percent or below

Description This indicator reflects the ability to acquit liabilities with the proceeds from the disposal of its realisable assets. Ideally, total liabilities should be less than **50 percent** of realisable assets.

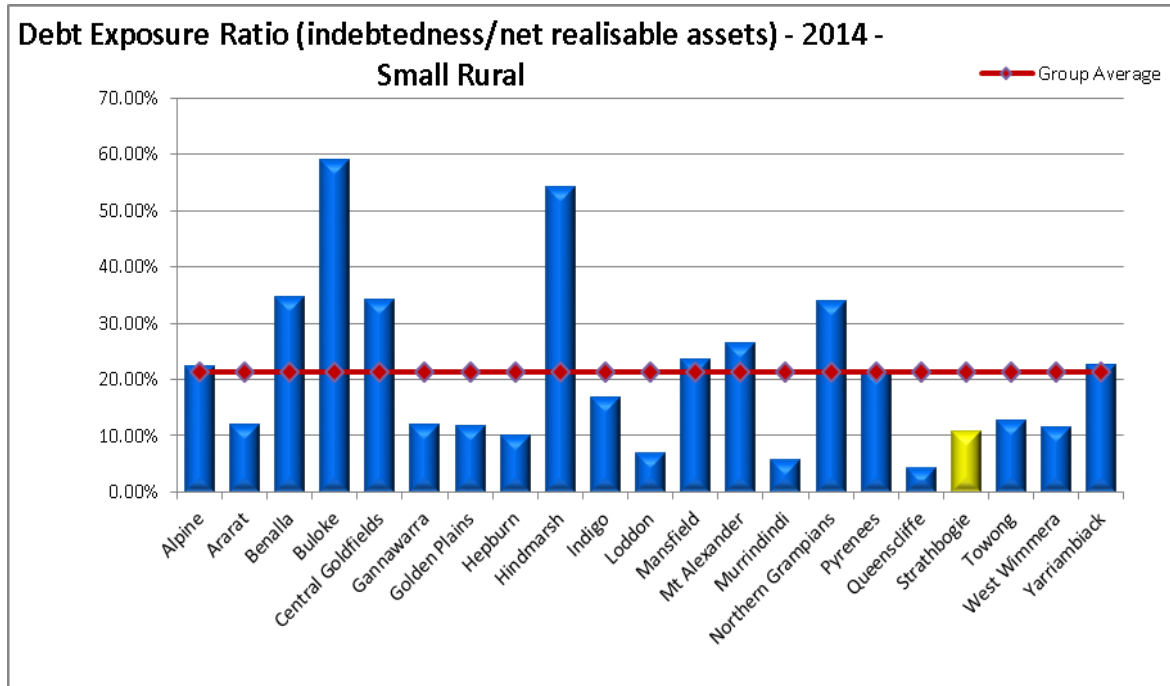


Chart 11: Debt Exposure – Total Liabilities / Total Realisable Assets – 2013/14

Strathbogie Shire Council’s exposure of **11 percent** as at June 30, 2014 is below both the state and **Small Rural’s** average and the **50 percent** benchmark.

7.3.3 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.

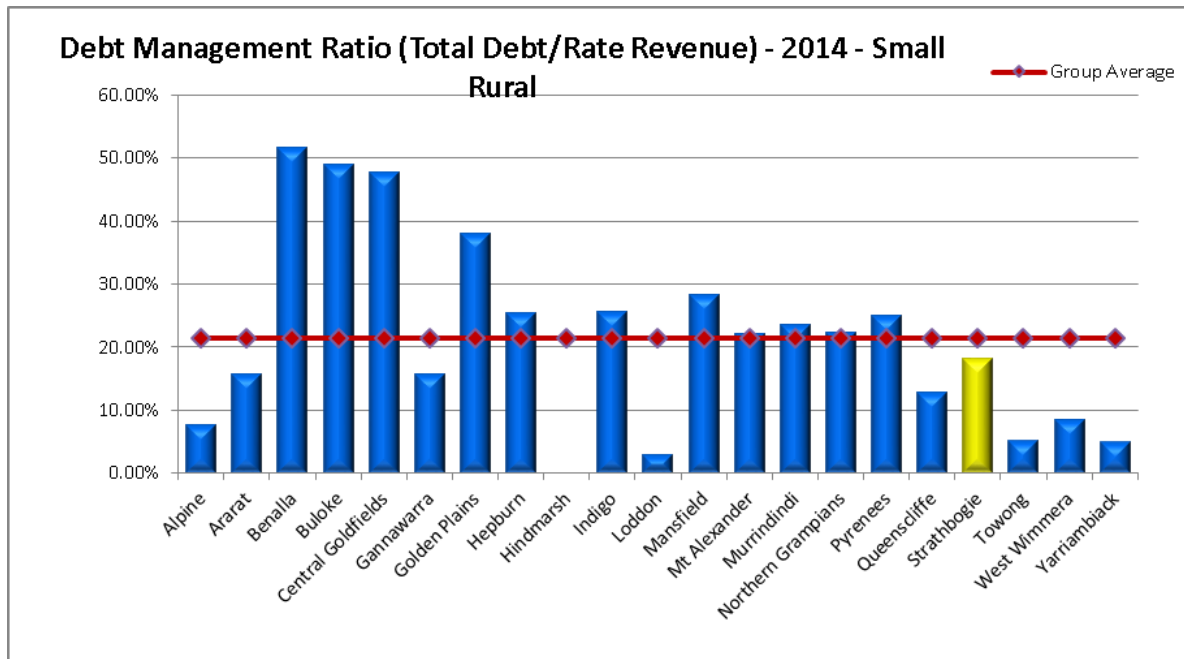


Chart 12: Total Debt as a Percentage of Rate Revenue – 2013/14

Strathbogie Shire Council's debt as a percentage of rate revenue as at June 30, 2014 was **18.2 percent**, which is well below the **80 percent** benchmark and slightly above the **Small Rural's** average.

7.3.4 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.

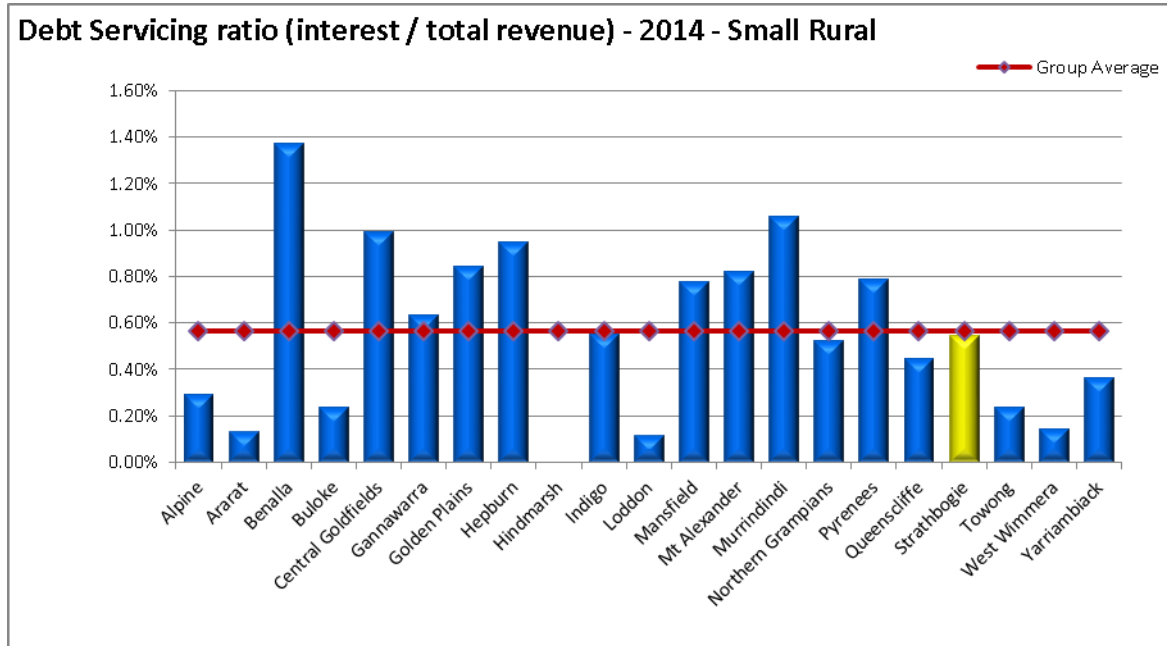


Chart 13: Debt Servicing Ratio (Interest / Total Revenue) – 2013/14

The **Strathbogie Shire Council's** projected ratio is **0.7 percent** at 30 June 2014, 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.

7.4 What is a Prudent Level of Debt?

The following graph introduces an additional financial ratio namely debt commitment costs as a percentage of rates. Debt commitment costs include principal and interest repayments in a year.

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

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

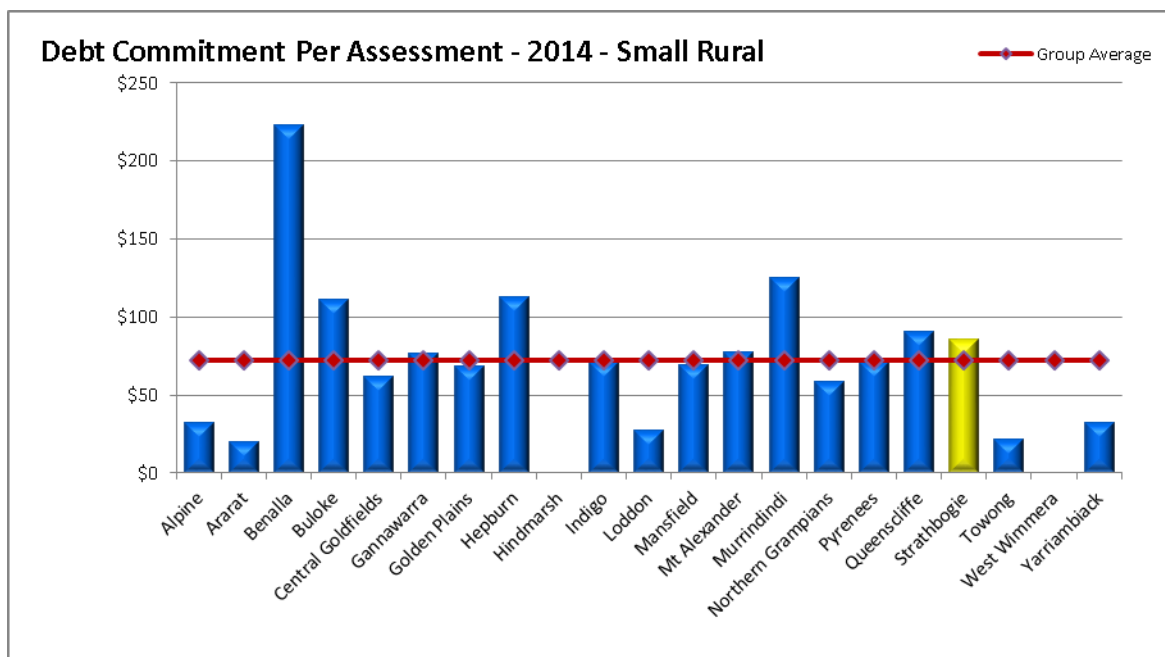


Chart 14: Debt Commitment per Assessment – 2013/14

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

The examination should determine:

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

In 2013/14 4.1 **cents** in the rate dollar received serviced debt – both principal and interest payments. This is an affordable level and reflects the benefit of taking out loans over a longer period.

In 2014/15 it is not proposed that this figure will decrease as no loans will be taken up.

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

The intergenerational equity theory is based on the premise that successive generations and new residents should contribute to infrastructure or facilities that they will enjoy and benefit from.

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

There are limits on borrowings due to the costs of interest payments. If the council was to borrow too heavily it would result in an inability to invest in capital works due to funds being consumed in debt repayment.

Therefore a balance is important.

The diagram below shows Council's borrowings to maintain a debt commitment ratio at a maximum of **16.5 cents** in the dollar over the life of the 10 year financial plan.

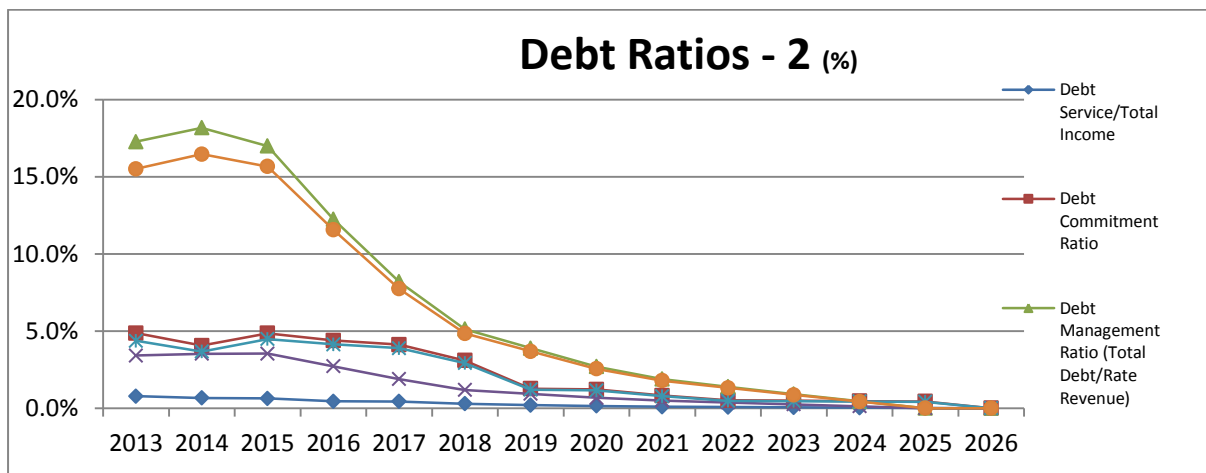


Chart 15: Debt Commitment 16.5 Cents

7.5 Future Loan Program

The chart below highlights the forecast borrowings.

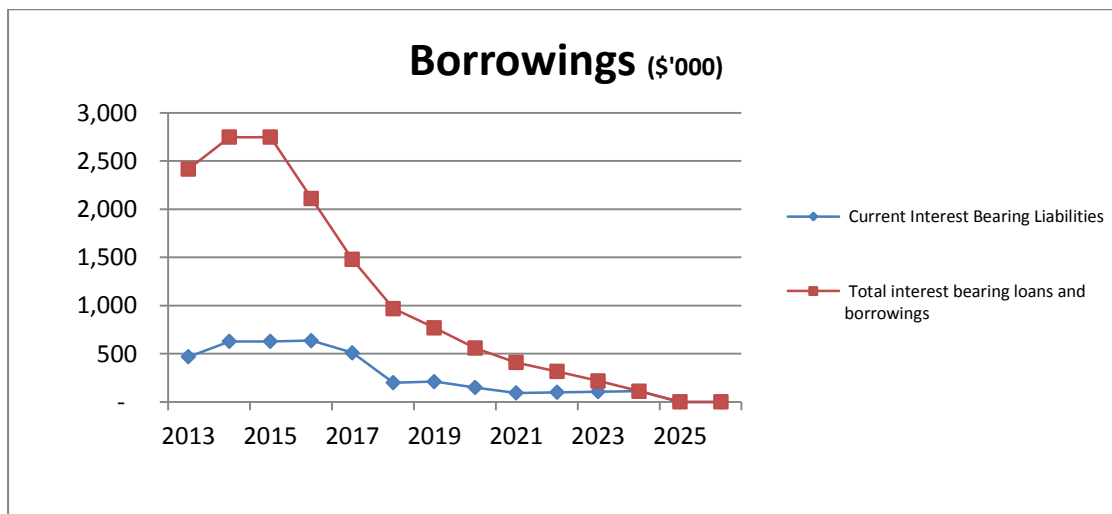


Chart 16: Total and Current Interest Bearing Liabilities 2013/14

Strategic Direction

12. That Strathbogie Shire Council based on Better Practice Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and
13. That Strathbogie Shire Council retains its debt servicing and redemption costs at or below **5** cents in the rate revenue dollar, towards interest and principal, over the life of this SRP.

8. RESTRICTED ASSETS

8.1 Introduction

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

8.2 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 2015/16 *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 **\$3.0 million to \$4.0 million** in working capital to meet day to day needs.

8.2.1 Developer Contributions

Development contribution receipts are 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.

8.2.2 Waste Strategy

All income and expenditure relating to waste services includes capital and operating expenditure. The waste services are fully funded by waste charges and transfer station fees.

8.2.3 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.

8.2.4 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 2014 \$000's
Developer Contributions	150
Bridge Reserve	400
Unexpended Grants	166
Amounts held in Trust	548
Total	1,264

Table 11: Restricted Assets – 2013/14

Strategic Direction

14. That **Strathbogie Shire Council** builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least **\$3.0 million to \$4.0 million** in working capital to meet day to day needs.
15. That to ensure sufficient funds are available to meet operational needs, **Strathbogie Shire Council** retains a cash position of at least **\$3.0 million to \$4.0 million** after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, security deposits etc.

9. RATING AND OTHER REVENUE STRATEGIES

9.1 Introduction

This section includes:

- Valuations;
- Components of Strathbogie Shire Council's rating base;
- Background to present rating system;
- Rates Affordability;
- Rating Strategy;
- Rates and Charges Budget 2015/16;
- Rating Strategy 2015/16;
- Waste services;
- Grant revenue;
- Victoria Grants Commission; and
- Fees and charges revenue.

9.2 Valuations

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

Valuations are carried out using *Valuation Best Practice Principles* as set down by the State Government Valuer General. In **Strathbogie Shire Council**, the valuation unit's general valuations are required every two years 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 2014 revaluation was undertaken based on property values at 1 January 2014.

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.

9.2.1 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.

9.2.2 Supplementary valuations

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

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

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.

9.2.3 Components of Council's Rating Base

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

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

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

9.2.4 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.

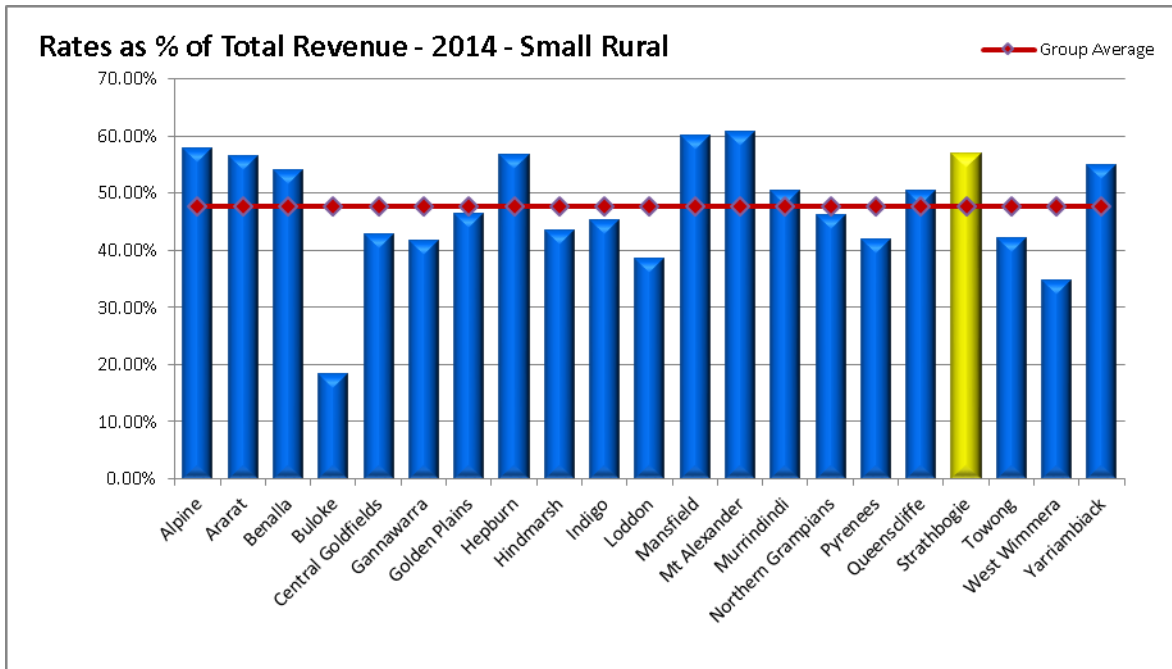


Chart 17: Rates as % of Total Revenue– 2013/14

On rates per assessment basis in the 2013/14 financial year, **Strathbogie Shire Council** was above average for the **Small Rural** group.

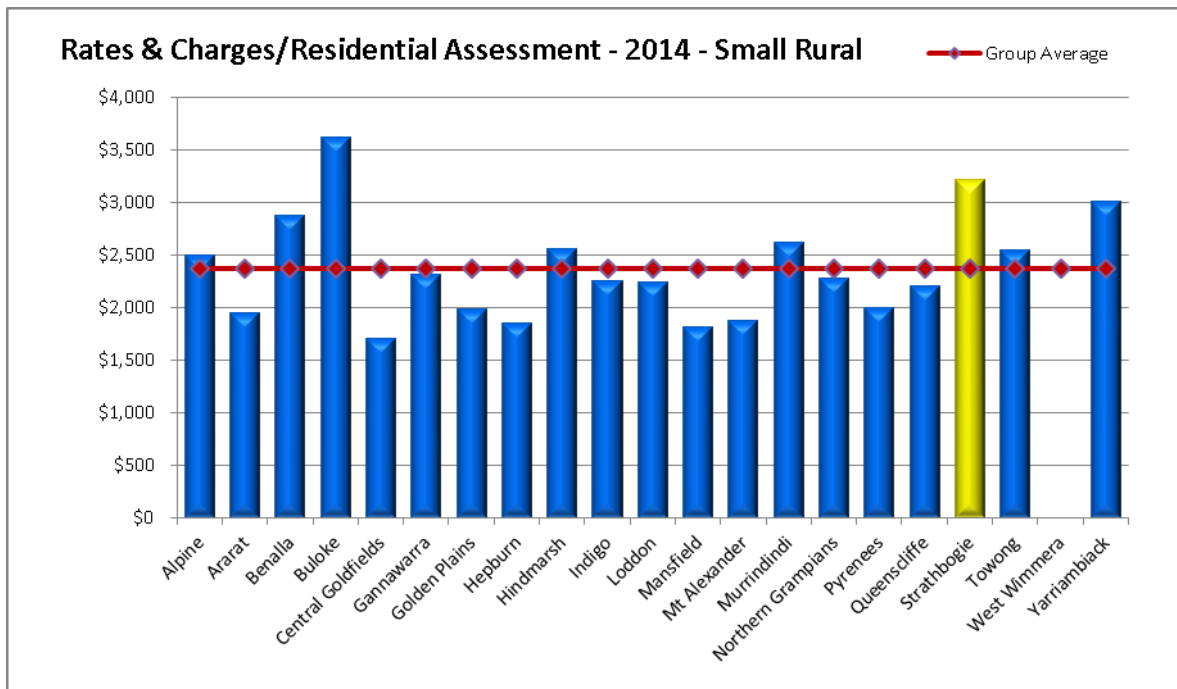


Chart 18: Rates & Charges per Residential Assessment – 2013/14

On a rates per residential assessment Strathbogie Shires rating effort is approximately \$3,200 **which is 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.

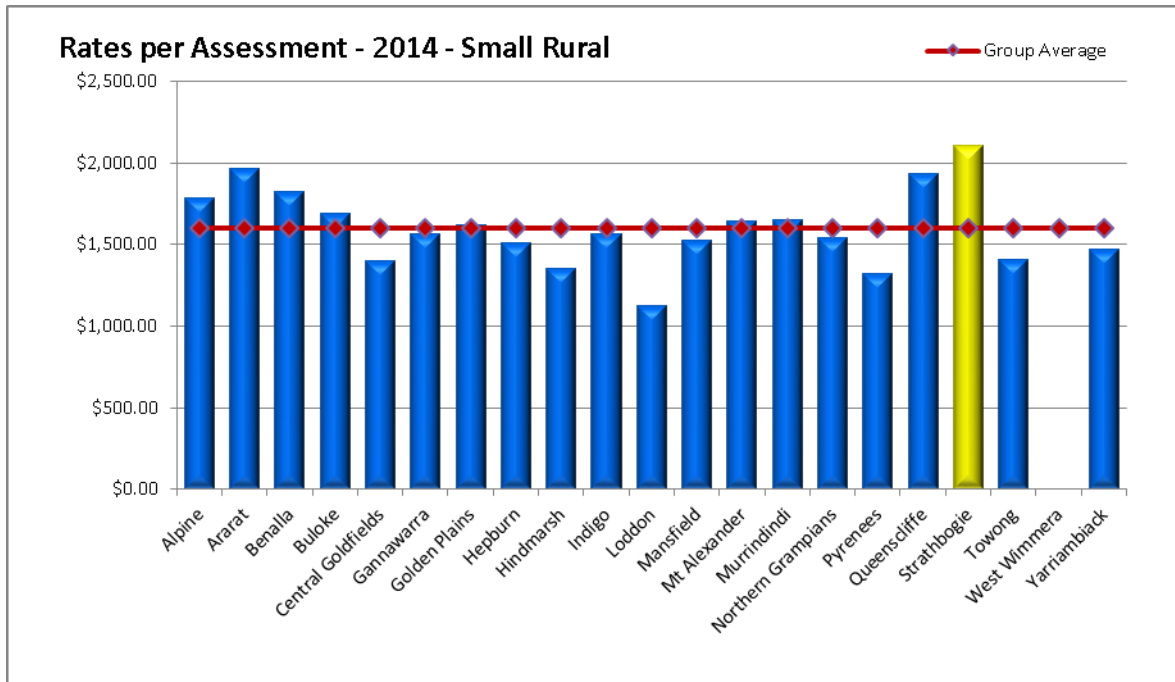


Chart 19: Rates Per Assessment – 2013/14

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.

9.2.5 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 current revenue distribution by property type is detailed in the Chart below:

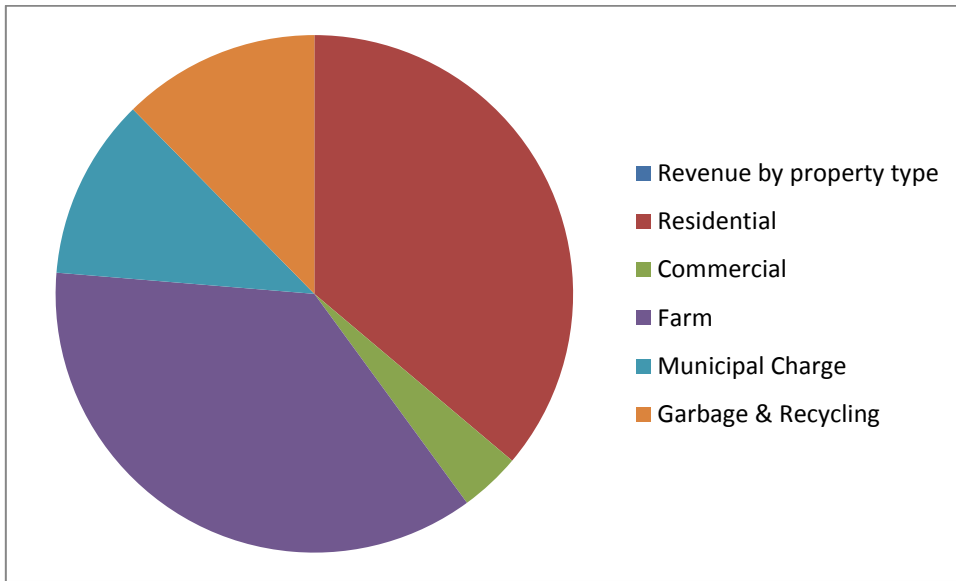


Chart 20: Revenue Distribution by property type- 2013/14

Data not available for Charts 21 and 22

Chart 21: Rates & Charges Raised by Property Value

Chart 22: Rates & Charges Paid by No of Properties

The following tables summarises the rates in dollar levied in the 2014/2015 year including a comparison with 2013/14:

Differential Rate Type	Cents in/\$ CIV 2013/14	Cents in/\$CIV 2014/15	Change (%)
Rateable Residential Properties	0.005037629	0.005106248	1.36%
Rateable Farm Properties	0.004281985	0.004340311	1.36%
Rateable Commercial Properties	0.006045155	0.006127498	1.36%
Rateable Vacant Residential Land	0.008815851	0.008935934	1.36%
Rateable Vacant Commercial Land	1.0579022	1.0723121	1.36%
Rate Concession for rateable recreational properties	0	0	0

Table 12: Rates and Charges Annualised - 2013/14

The table below outlines the total rates and charges for 2013/14 and 2014/15:

Description	Total Annualised 2013/14* (\$)	Total 2014/15 (\$)	Change (%)
General Rates	11,681,502	12,470,140	6.75%
Municipal Charges	1,719,956	1,735,121	0.88%
Waste Service Charges	1,873,155	1,965,703	1.94%
Total Rates and Charges Revenue	15,274,613	16,170,964	5.87%

Table 13: Rates and Charges 2013/14 as compared to 2014/15

Type of Property	2014/15 (\$)
Rateable Residential Properties	8,376,225
Rateable Farm Properties	6,336,066
Rateable Commercial Properties	806,859
Rateable Vacant Residential Land	641,495
Rateable Vacant Commercial Land	10,319
Rate Concession for rateable recreational properties	0
TOTAL	16,170,964

Table 14: Individual Rates Annualised 2014/15

9.2.6 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.

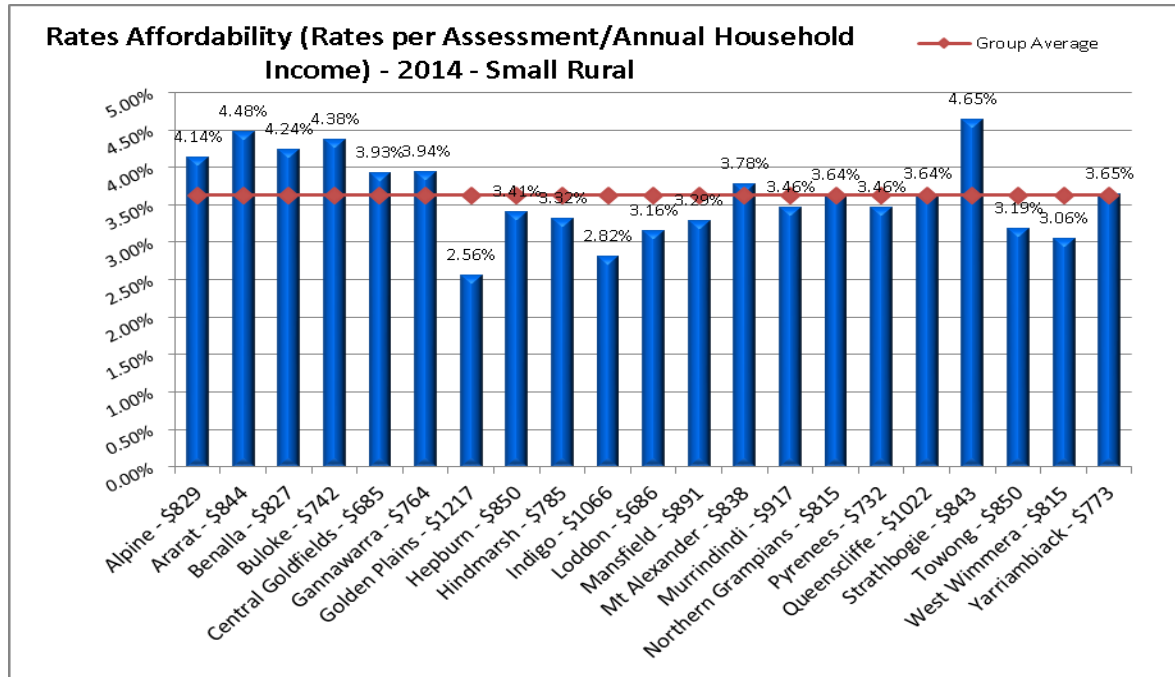


Chart 23: Rates Affordability Small Rural – 2013/14

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

9.2.7 Rating Strategy

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

The rating system determines how **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.

9.2.8 Rates and Charges Budget – 2015/16

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 or farming.

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 four differential rates (developed and vacant).

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.

Under the Cultural and Recreational Lands Act 1963, provision is made for a Council to levy the rate for recreational lands at “such amount as the municipal council thinks reasonable having regard to the benefit to the community derived from such recreational lands.”

The vacant residential rate is currently set at **175 percent** of the developed rate and the vacant commercial rate is set at **175 percent** of the developed rate.

Council also charges a garbage collection charge, a recycling collection charge, an organics collection charge under the Act. Council intends to apply an environmental levy for 2015/16.

In addition, Council offers a farm land differential rate for all farms above 40 hectares in accordance with the Strathbogie Planning Scheme.

9.2.9 Rate Capping

The Victorian Government will introduce rate capping in 2016/17. Strathbogie Shire has based rate increases on 4% which is the expected rural council CPI. The cumulative revenue loss to **Strathbogie Shire Council** based on the 2013/14 Strategic Resource Plan compared to Council's previous LTFP over the coming 9 years from 2016/17 is **\$8.5 M**.

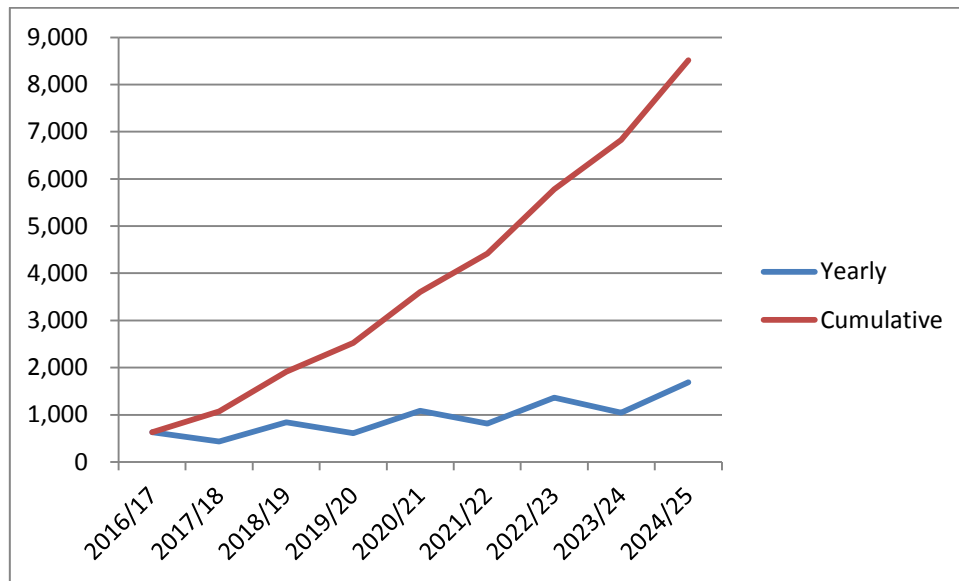


Chart 24: Impact of Rate Capping (Commencing 2016/17)

9.2.10 Rating Strategy 2015/16

During the 2014/15 financial year, Council has undertaken a full review of its rating strategy.

Council's **Rating Strategy** seeks to establish the framework by which rate revenue will be shared by the community over the 2015/16 financial year and beyond. 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 charges, and is proposing to introduce an environmental and organics charge. Councils are able to levy a municipal charge on each rateable property within the municipality with the exception of farms where a single municipal charge is payable on multiple assessments operated as part of a single farm enterprise.

The municipal charge is a fixed charge per assessment regardless of the valuation of that property and is used to offset some of the governance costs of the Council. It cannot generate more than **20 per cent** of the revenue raised from rates and the

municipal charge. These options have been looked at in the context of shifting the rate burden, rather than increases in rates and charges and include the following options:

- **Option 1:** shown below:

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

	Current Structure	Municipal Charge 10%, Farm Differential 85%	Municipal Charge 10%, Farm Differential 85%, Transfer Station/Tree Charge
Rateable Residential Properties	Y	0.00510625	0.005334707
Rateable Farm Properties	Y	0.00434031	0.004534501
Rateable Commercial Properties	Y	0.00612750	0.006401648
Rateable Vacant Residential Land	Y	0.00893594	0.009335737
Rateable Vacant Commercial Land	Y	0.01072313	0.011202885
Municipal Charge	Y	266	266
Garbage Charge 240 Litre Bin	Y	679	302
Recycling Charge	Y	168	89
Organics Charge	N	0	179
Transfer Station/Tree Management Program Charge	N	0	126

Table 15: Summary rate in the dollar – proposed changes rating structure– 2015/16

These changes to the rating structure are without reference to an increase in the rate and charges for future years. Council must also determine the percentage increase needed in rates and charges to maintain the long-term financial stability of the Council.

The outcome of a proposed **4 percent** increase in rates and charges in 2015/16 is an additional **\$1.0 million** over the 2014/15 financial year.

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

Description	Total Annualised Rates and Charges 2014/2015 (\$)	Total Rates and Charges 2015/2016 (\$)	Change (%)
Rateable Residential Properties	8,399,561	8,945,558	6.50%
Rateable Farm Properties	6,336,066	6,753,890	6.58%
Rateable Commercial Properties	806,859	805,657	0%
Rateable Vacant Commercial Land	10,319	11,493	11.3%
Rateable Vacant Residential Land	641,495	717,187	11.8%
Rate concession for public housing	0	0	0
Totals	16,194,300	17,233,785	6.41%

Table 16: Rate Increases1– 2015/16

9.2.11 Service Charges – Waste Collection Service & Tree Management Program

Strathbogie Shire Council is empowered under Section 162(1) (b) & (d) of the *Local Government Act (1989)* to levy a service charges for the collection and disposal of refuse, and tree management. The purpose of these charges is to meet the costs of waste disposal, recycling and organics activities throughout the **Strathbogie Shire** area, including development and rehabilitation of Landfill sites and the operating costs of Landfills and Transfer Stations, as well as providing for important tree management. **Strathbogie Shire Council** has typically used this option through the raising of garbage and recycling charges on the annual rate assessment. Council believes the introduction of a service charge to cover the net cost of transfer stations and tree management program shares the burden of waste management costs more equitably across the property categories rather than being totally funded by the users of the kerbside collection services. It also provides for all property categories to fund tree management programs on road sides.

Strathbogie Shire Council's 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;
- Forward planning and for capital budget requirements; and
- Tree management program.

Strathbogie Shire Council's proposed charges are as described below (** denotes ex GST). A total income of **\$2.314 million** will be received for garbage, recycling, organics and transfer station/tree management program services in 2015/16 to support recurrent operating expenditure).

Service Charge	Charge per Service 2014/2015 (\$)	Charge per Service 2015/2016 (\$)	Change (\$)	Change (%)
Garbage Charge	679	302	(477)	-70%
Recycling Charge	168	89	(79)	-47%
Organics Charge	0	179	179	0
Transfer Station & Tree Management Program Service Charge	0	126	126	0

Table 17: Projected Garbage Charges – 2015/16

9.2.12 Grant Revenue

As at 30 June 2014 **Strathbogie Shire Council** was above average in terms of receiving government grant revenue, compared to its like Council grouping as outlined in the graph below. As a benchmark **Strathbogie Shire Council** receives **30 percent** of its revenue (as a percentage of total revenue) from operating grants compared to the average of **Small Rural's** at **25 percent**.

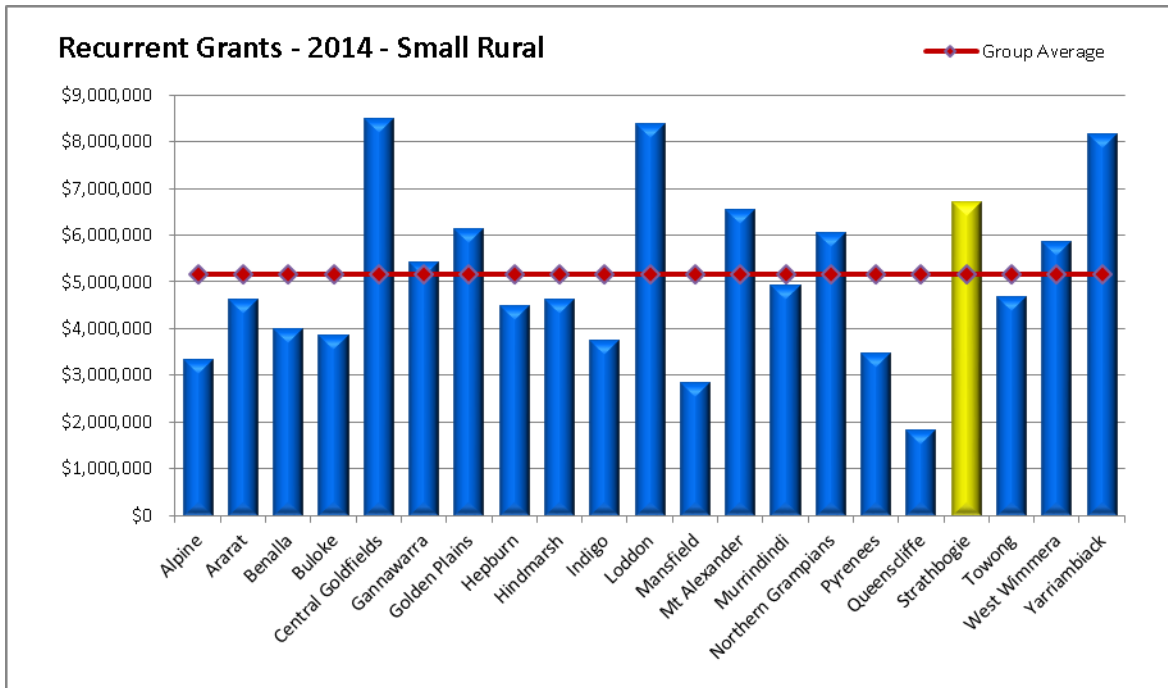


Chart 25: Recurrent Grants – 2013/14

Strathbogie Shire Council must continue its strong focus on securing grant revenue, particularly for capital works. Grants (capital and operating) at 30 June 2014 totalled **\$8.1 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.

9.2.13 Victoria Grants Commission

Strathbogie Shire Council receives approximately **9.4 percent** of its revenue from the Victoria Grants Commission in 2013/14. This revenue is projected at **\$4.86 million** in 2014/15 and budgeted at **\$4.91 million** in 2015/16. The Grants Commission indexation has been frozen for the 2015/16 to 2017/16 financial years.

9.2.14 Fees and Charges Revenue

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

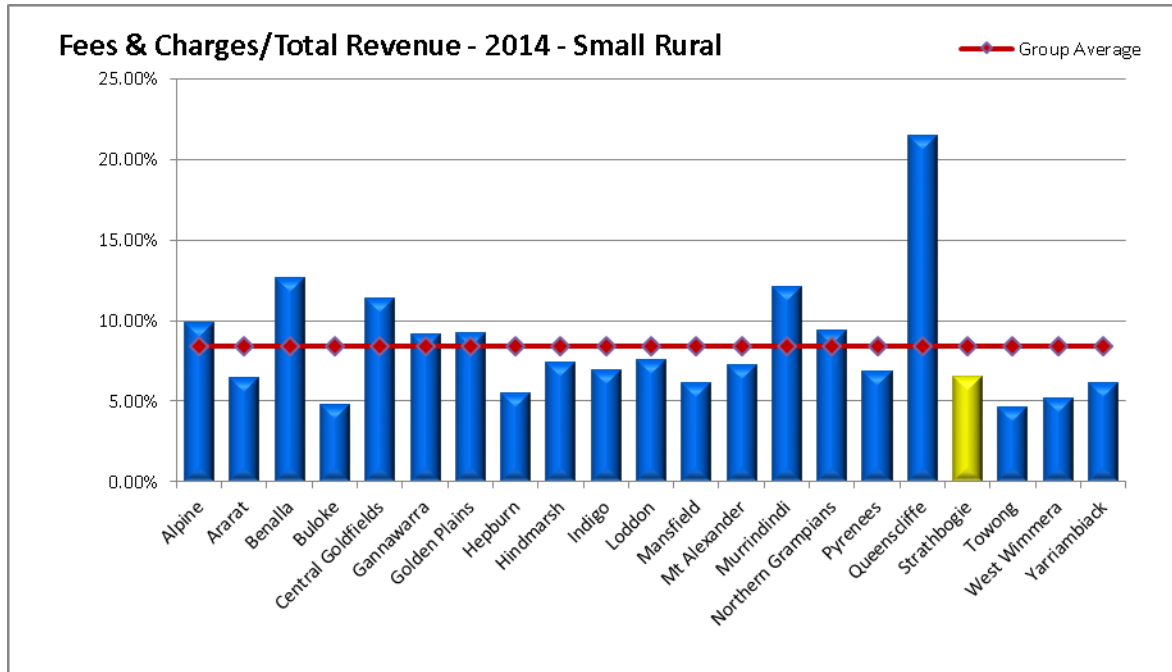


Chart 26: Fees & Charges/Total Revenue – 2013/14

Strategic Direction

That **Strathbogie Shire Council**;

16. retains capital improved value (CIV) as its valuation base;
17. provides a municipal charge that approaches **10 percent** of rate revenue plus the municipal charge to ensure an equitable contribution towards the unavoidable fixed costs of **Strathbogie Shire Council**;
18. considers future increases in environmental levy and waste based on EPA, regulatory and safety requirements and the need to sustain the Council's long term waste operations strategy as well as providing for general roadside tree maintenance;
19. in 2015/16, adopts an **4 percent** increase in total revenue for general rates and municipal charges and **a6.57 percent** overall increase in total rates and charges which represents 63.7% of the total revenue
20. including funding the cost of disposal of domestic waste, recycling collection, organics collection and the transfer station/tree management program;
21. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils; and
22. undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.

10. STRATEGIC FINANCIAL PLAN

10.1 Introduction

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

- Rating levels and supplementary rate income;
- Government grant revenue (both recurrent and capital);
- Granted asset amounts;
- Asset revaluations (major impact on fixed asset value and depreciation);
- Asset sales;
- Mix of funding between capital works/special projects (new initiatives); 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

10.2 Modelling Methodology

The SRP establishes a framework for Council to benchmark its performance and an industry developed long term financial software model has been utilised to verify the data. The base point used for financial modelling has been the Council budget for 20 June 2015.

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

10.3 Financial Assumptions

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

10.3.1 Labour and on-costs

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

Year	2012/13 %	2013/14 %	2014/15 %	2015/16 %
EBA Banding Increase/Other	3%	3%	3%	3%

Table 18: Labour and on-costs – 2014/15

10.3.2 Depreciation

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

10.3.3 Materials and contracts

These materials are essentially one-off expenditures that do not constitute the creation of an asset and have been increased at 2013/14 levels through the life of the SRP.

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

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

10.3.4 Special projects/consultancies

These works are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2013/14 levels through the life of the SRP.

10.3.5 Debt servicing and redemption

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

10.3.6 Written-down values of assets sold

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

10.3.7 Rate revenue

The 2015/16 Budget is based on an increase of **4 percent** for rates. Council's Rating Strategy is dealt with in detail in Section 9.7.

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

10.3.8 Service charges

The 2015/16 Budget was based on transfer station/tree management program service charge and waste management charge of a **17 percent** increase.

Funds raised are ultimately deployed to waste management (operating and capital) activities. This is discussed in Section 9.2.8 in more detail.

10.3.9 Grant revenue

An allowance of **\$7.8 million** has been made as operating grant revenue for services and projects in 2015/16. In broad terms, a **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. Reimbursements from the *State Revenue Office* for land valuations have also been included in the appropriate years.

10.3.10 Fees and charges

Fees and charges that Council has discretion over have been increased by **3 percent** per annum. Fees and charges of **\$1.0 million** have been provided for in 2015/16.

10.3.11 Statutory Fees and Fines

Council has no control over a large amount of statutory fees prescribed by the State Government. Fines include town planning, local laws and the animal pound. Fees and fines are included in the above.

10.3.12 Interest on investments

Interest on investments has been estimated based on cash flow.

10.3.13 Proceeds from sale of assets

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

10.3.14 Capital grants

Capital grant revenue is **\$0.9 million** in 2015/16, with revenue from future years estimated to fund future capital works.

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

10.3.15 Granted assets

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

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

However, estimates beyond 2015/16 are not based on any reliable data at this point. While granted assets add to Council's overall asset base, they also add to the future obligations to maintain and replace these assets at the end of their useful lives.

10.3.16 Capital expenditure

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

These funds are be available for capital renewal (priority), capital upgrade or expansion. Council developed a 10-year capital works program during the 2014/15 financial year.

10.4 Conclusion

The *Strategic Resource Plan* was adopted, by Council at its Special meeting in June 2015.

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

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

Strategic Direction

23. That **Strathbogie Shire Council** finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery through the annual budget process.

11. APPENDIX A: GLOSSARY OF TERMS

TERM	DEFINITION
Act	The <i>Local Government Act 1989</i> .
Activities	The operations of the council including services undertaken to meet the needs of the community as reflected in the council plan and are generally ongoing in nature.
Adjusted operating surplus/deficit	Operating surplus/deficit less revenue from capital (non-recurrent) grants, developer contributions (i.e. assets contributed), asset revaluations, sale of assets plus expenditure from asset revaluations, WDV of assets sold and unfunded superannuation expense.
Adjusted total operating expenses	Total operating expenses as per the "Statement of financial performance" – net of asset revaluations, unfunded superannuation expense and WDV of asset sold.
Adjusted total revenue	Total revenue from "Statement of financial performance" – net of asset sales, asset contributions in kind. Capital grant funding and revaluation adjustments.
Annual report	A report of the activities 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.
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 grants (non-recurrent)	Capital or non-recurrent grants as disclosed in notes.
Capital works expenditure	Expenditure on non-current assets and includes new assets, asset renewal, asset expansion and asset upgrades.
Council cash	Funding from council's own sources of income. Example include rates, charges, investments and reserves, interest and asset sales.
Council plan	A plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting vision and aspirations of the community for the next four years.
Current assets	Total current assets from "Statement of financial position".
Current liabilities	Total current liabilities from "Statement of financial position"
Debt redemption	Debt principal's repayments.
Debt servicing costs (interest)	Total borrowing costs or interest expense as per the "Statement of financial performance" or as disclosed in note in some councils' 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 note in some

TERM	DEFINITION
	councils' 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 Australian Accounting Standards as they apply to the general purpose financial reports of local governments 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.
Grant income and reimbursements	Total grants revenue as per the "Statement of financial performance" or as disclosed in note in some councils' statements (includes Vic Roads sometimes shown as "reimbursements" by some councils).
Granted assets	Total value of assets received from developers (in kind) as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
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 note in some councils' statements.
Measure	How an indicator will be measured and typically includes a numerator and denominator.
Minister	The Minister for Local Government.
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 human resources required to deliver the services and initiatives in the budget.
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.
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 note in some council's statements, (gross received not Written-down value).
Rate revenue	Total rate revenue as per the "Statement of financial performance" or as disclosed in note in some councils' statements.
Rates outstanding at end of year	Rate debtor amount as disclosed in "Receivables" note.
Regulations	The <i>Local Government (Financial Planning and Reporting) Regulations 2014</i> .
Services	Assistance, support, advice and other actions undertaken by a council for the benefit of the local community.
State grants	Grant funding from the State government.

TERM	DEFINITION
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.
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 by class and expenditure type.
Statement of human resources	A statement which shows all council staff expenditure and numbers of full time equivalent council staff.
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 note in some councils' statements.
Total depreciation on infrastructure assets	Total depreciation on infrastructure assets as disclosed in "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 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, has 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"
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 note in some councils' statements.

Table 19: Glossary of Terms / Definitions

12. APPENDIX B: FINANCIAL STATEMENTS

This Appendix contains the financial statements that follow:

- Comprehensive Income Statement;
- Balance Sheet;
- Statement of Cash Flows;
- Statement of Capital Works; and
- Statement of Changes in Equity.

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

The Regulations commenced on 18 April 2014.

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

12.1 Comprehensive Income Statement

Figure 6: Comprehensive Income Statement

Strathbogie Shire

Budgeted Income Statement

	Forecast	Budget Strategic Resource Plan			
	Actual	2015/16	2016/17	2017/18	2018/19
	2014/15	2015/16	2016/17	2017/18	2018/19
	\$'000	\$'000	\$'000	\$'000	\$'000
Income					
Rates and charges	16,171	17,234	18,041	18,886	19,770
Statutory fees and fines	271	278	286	295	304
User fees	1,098	743	773	804	836
Contributions - cash	-	15	15	-	-
Contributions - non-monetary assets	-	-	-	-	-
Grants - operating (recurrent)	6,360	5,253	4,911	5,107	5,311
Grants - operating (non-recurrent)	769	539			
Grants - capital (recurrent)	2,334	2,554	1,546	1,608	1,672
Grants - capital (non-recurrent)	1,258	366	200	200	200
Net gain on disposal of property, infrastructure and equipment	(1,068)	(500)	(500)	(500)	(500)
Other income	419	586	592	591	591
Total Income	27,612	27,068	25,864	26,991	28,184
Expenses					
Employee benefits	(9,428)	(8,317)	(8,567)	(8,824)	(9,088)
Materials and services	(11,221)	(11,637)	(11,323)	(11,606)	(11,954)
Bad and doubtful debts	(5)	-	-	-	-
Depreciation and amortisation	(4,736)	(4,988)	(4,851)	(5,100)	(5,201)
Finance costs	(161)	(120)	(72)	(47)	(37)
Other expenses	(193)	(202)	(208)	(214)	(221)
Total Expenses	(25,744)	(25,264)	(25,021)	(25,791)	(26,501)
Surplus (deficit) for the year	1,868	1,804	843	1,200	1,683
Other comprehensive income					
Other	-	-	-	-	-
Comprehensive result	1,868	1,804	843	1,200	1,683

12.2 Budgeted Balance Sheet

Figure 7: Budgeted Balance Sheet

Strathbogie Shire Budgeted Balance Sheet

	Forecast	Budget	Strategic Resource Plan		
	Actual		2016/17	2017/18	2018/19
	2014/15	2015/16	2016/17	2017/18	2018/19
	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets					
Cash and cash equivalents	6,468	6,654	4,905	4,420	3,510
Trade and other receivables	1,468	1,468	1,910	2,023	2,113
Other assets	124	124	124	124	124
Total current assets	8,060	8,246	6,939	6,567	5,747
Non-current assets					
Trade and other receivables	226	226	226	226	226
Property, infrastructure, plant and equipment	238,254	239,536	241,396	254,966	257,365
Total non-current assets	238,480	239,762	241,622	255,192	257,591
Total assets	246,540	248,008	248,561	261,759	263,338
Current liabilities					
Trade and other payables	2,078	2,586	2,907	3,008	3,087
Interest-bearing loans and borrowings	636	636	173	184	134
Provisions	2,388	2,388	2,388	2,388	2,388
Total current liabilities	5,102	5,610	5,468	5,580	5,609
Non-current liabilities					
Interest-bearing loans and borrowings	1,484	840	692	509	374
Provisions	665	665	665	665	665
Total non-current liabilities	2,149	1,505	1,357	1,174	1,039
Total liabilities	7,251	7,115	6,825	6,754	6,648
Net assets	239,289	240,893	241,736	255,005	256,690
Equity					
Accumulated surplus	76,611	78,315	79,158	80,357	82,042
Asset revaluation reserve	161,928	161,928	161,928	173,998	173,998
Other reserves	750	650	650	650	650
Total equity	239,289	240,893	241,736	255,005	256,690

12.3 Budgeted Cash Flow Statement

Figure 8: Budgeted Cash Flow Statement

Strathbogie Shire Budgeted Cash Flow Statement

	Forecast	Budget	Strategic Resource Plan		
	Actual		2016/17	2017/18	2018/19
	2014/15	2015/16	2016/17	2017/18	2018/19
	\$'000	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities					
Receipts					
Rates and charges	16,171	17,234	17,738	18,809	19,709
Grants - operating	7,129	7,808	4,828	5,086	5,295
Grants - capital	3,590	905	1,717	1,800	1,866
Interest	150	155	152	154	155
User fees	1,098	743	760	800	833
Statutory fees and fines	271	278	282	294	303
Other revenue	270	445	444	434	434
	28,679	27,568	25,921	27,377	28,595
Payments					
Employee benefits	-9,428	-8,317	-8,430	-8,780	-9,054
Materials and consumables	-12,912	-11,637	-11,142	-11,549	-11,910
Other expenses	-193	-202	-205	-213	-220
	-22,533	-20,156	-19,777	-20,542	-21,184
Net cash provided by operating activities	6,146	7,412	6,144	6,835	7,411
Cash flows from investing activities					
Proceeds from sales of property, plant and equipment	2,040	300	300	300	300
Repayment of loans and advances	-525	0	0	0	0
Payments for property, plant and equipment	-9,561	-6,770	-7,511	-7,400	-8,400
Net cash used in investing activities	-8,046	-6,470	-7,211	-7,100	-8,100
Cash flows from financing activities					
Finance costs	-160	-120	-72	-47	-37
Repayment of borrowings	-626	-636	-610	-173	-184
Net cash provided by (used in) financing activities	-786	-756	-682	-220	-221
Net increase (decrease) in cash and cash equivalents	-2,686	186	-1,749	-485	-910
Cash and cash equivalents at beg of year	9,154	6,468	6,654	4,905	4,420
Cash and cash equivalents at end of year	6,468	6,654	4,905	4,420	3,510

12.4 Budgeted Statement of Capital Works

Figure 9: Statement of Capital Works 2013/14

Strathbogie Shire

	Forecast Actual	Budget	Strategic Resource Plan Projections		
	2014/15 \$'000	2015/16 \$'000	2016/17 \$'000	2017/18 \$'000	2018/19 \$'000
Capital works areas					
Land	1,613	190	-	-	-
Land improvements	-	-	-	-	-
Buildings	1,450	397	1,768	2,081	2,304
Building improvements	-	-	-	-	-
Leasehold improvements	-	-	-	-	-
Heritage buildings	-	-	-	-	-
Plant, machinery and equipment	970	770	1,012	1,002	1,004
Fixtures, fittings and furniture	190	250	294	294	294
Computers and telecommunications	-	-	-	-	-
Heritage plant and equipment	-	-	-	-	-
Library books	-	-	-	-	-
Roads	3,562	3,561	4,012	3,550	4,311
Bridges	717	1,052	385	432	441
Footpaths and cycle ways	105	149	35	34	36
Drainage	599	339	5	7	10
Rec, leisure and community facilities	-	-	-	-	-
Waste management	275	-	-	-	-
Parks, open spaces and streetscape	-	-	-	-	-
Aerodromes	-	-	-	-	-
Off street car parks	-	-	-	-	-
Other infrastructure	-	-	-	-	-
Kerb and Channel	80	62	-	-	-
Live stock exchange	-	-	-	-	-
Bores and Pumps	-	-	-	-	-
Fences and Hard Standings	-	-	-	-	-
Total capital works	9,561	6,770	7,511	7,400	8,400
Represented by:					
Asset renewal	7,937	6,216	6,384	6,290	7,140
New assets	523	147	376	370	420
Asset expansion	-	-	-	-	-
Asset upgrade	1,101	407	751	740	840
Total capital works	9,561	6,770	7,511	7,400	8,400

12.5 Budgeted Statement of Changes in Equity

Figure 10: Budgeted Statement of Changes in Equity

Strathbogie Shire

	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2015/16				
Balance at beginning of the financial year	239,289	76,611	161,928	750
Adjustment on change in accounting policy	0	0	0	0
Comprehensive result	1,804	1,804	0	0
Net asset revaluation increment (decrement)	0	0	0	0
Transfer (to)/from reserves	-200	-100	0	-100
Balance at end of financial year	240,893	78,315	161,928	650
2016/17				
Balance at beginning of the financial year	240,893	78,315	161,928	650
Adjustment on change in accounting policy	0	0	0	0
Comprehensive result	843	843	0	0
Net asset revaluation increment (decrement)	0	0	0	0
Transfer (to)/from reserves	0	0	0	0
Balance at end of financial year	241,736	79,158	161,928	650
2017/18				
Balance at beginning of the financial year	241,736	79,158	161,928	650
Adjustment on change in accounting policy	0	0	0	0
Comprehensive result	1,200	1,200	0	0
Net asset revaluation increment (decrement)	12,070	0	12,070	0
Transfer (to)/from reserves	0	0	0	0
Balance at end of financial year	255,005	80,357	173,998	650
2018/19				
Balance at beginning of the financial year	255,005	80,357	173,998	650
Comprehensive result	1,684	1,684	0	0
Balance at end of financial year	256,689	82,042	173,998	650

13. APPENDIX C: RATING PRINCIPLES

(a) Sustainable financial management

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

(b) Evaluating and setting priorities

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

(c) Core Functions

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

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

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

(d) Identifying the cost of service delivery

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

(e) Prudent borrowings for infrastructure

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

(f) Rate setting and pricing of services

The appropriate setting of rates and prices for goods and services is essential for the efficient recovery of the costs of providing council services and Council recognises that by choosing the appropriate instrument (rates, fees, user charges) it can achieve a better indication of the willingness of the community to pay for services and minimize the economic distortions that may arise when an inappropriate instrument is used.

Council will recover costs for services directly from the users of those services if a service benefits identifiable individuals or groups. If the benefit directly cannot be identified and/or if those that benefit directly cannot be excluded from using the service the costs should be allocated to the community.

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.

Fees and charges should be applied as far as practicable to raise revenue for the provision of services that are not pure public services, with efficient pricing, to ensure that services provided by local government are supplied to those who are willing to pay the opportunity cost of supply.

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.

Long Term Financial Plan	Forecast	Budget	Long Term Financial Plan Projections										
	Actual		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income													
Rates and charges	16,171	17,234	18,041	18,886	19,770	20,696	21,666	22,681	23,743	24,858	26,020		
Statutory fees and fines	271	278	286	295	304	313	323	332	342	353	363		
User fees	1,098	743	773	804	836	869	904	940	978	1,017	1,058		
Contributions - cash	-	15	15	-	-	-	-	-	-	-	-		
Contributions - non-monetary assets	-	-	-	-	-	-	-	-	-	-	-		
Grants - operating (recurrent)	6,360	5,253	4,911	5,107	5,311	5,524	5,745	5,974	6,213	6,462	6,720		
Grants - operating (non-recurrent)	769	539											
Grants - capital (recurrent)	2,334	2,554	1,546	1,608	1,672	1,739	1,809	1,881	1,958	2,034	2,116		
Grants - capital (non-recurrent)	1,258	366	200	200	200	200	200	200	200	200	200		
Net gain on disposal of property, infrastructure and equipment	(1,068)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)		
Other income	419	586	592	591	591	604	617	631	645	660	675		
Total Income	27,612	27,068	25,864	26,991	28,184	29,445	30,764	32,139	33,579	35,084	36,652		
Expenses													
Employee benefits	(9,428)	(8,317)	(8,567)	(8,824)	(9,088)	(9,361)	(9,642)	(9,931)	(10,229)	(10,536)	(10,852)		
Materials and services	(11,221)	(11,637)	(11,323)	(11,606)	(11,954)	(12,289)	(12,657)	(13,037)	(13,428)	(13,831)	(14,246)		
Bad and doubtful debts	(5)	-	-	-	-	-	-	-	-	-	-		
Depreciation and amortisation	(4,736)	(4,988)	(4,851)	(5,100)	(5,201)	(5,488)	(5,782)	(5,983)	(6,182)	(6,357)	(6,531)		
Finance costs	(161)	(120)	(72)	(47)	(37)	(27)	(20)	(15)	(9)	(3)	-		
Other expenses	(193)	(202)	(208)	(214)	(221)	(227)	(234)	(241)	(248)	(256)	(264)		
Total Expenses	(25,744)	(25,264)	(25,021)	(25,791)	(26,501)	(27,392)	(28,335)	(29,207)	(30,096)	(30,983)	(31,893)		
Surplus (deficit) for the year	1,868	1,804	843	1,200	1,683	2,053	2,429	2,932	3,483	4,101	4,759		

Long Term Financial Plan	Forecast	Long Term Financial Plan Projections									
	Actual	Budget	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets											
Cash and cash equivalents	6,468	6,654	4,905	4,420	3,510	2,301	1,708	916	1,263	3,725	7,240
Trade and other receivables	1,468	1,468	1,910	2,023	2,113	2,205	2,295	2,402	2,508	2,618	2,726
Other assets	124	124	124	124	124	124	124	124	124	124	124
Total current assets	8,060	8,246	6,939	6,567	5,747	4,630	4,127	3,442	3,895	6,467	10,090
Non-current assets											
Trade and other receivables	226	226	226	226	226	226	226	226	226	226	226
Property, infrastructure, plant and equipment	238,254	239,536	241,396	254,966	257,365	260,477	263,395	267,012	270,031	271,544	272,763
Total non-current assets	238,480	239,762	241,622	255,192	257,591	260,703	263,621	267,238	270,257	271,770	272,989
Total assets	246,540	248,008	248,561	261,759	263,338	265,333	267,748	270,680	274,152	278,237	283,079
Current liabilities											
Trade and other payables	2,078	2,586	2,907	3,008	3,087	3,163	3,236	3,325	3,412	3,500	3,582
Interest-bearing loans and borrowings	636	636	173	184	134	85	91	96	102	0	0
Provisions	2,388	2,388	2,388	2,388	2,388	2,388	2,388	2,388	2,388	2,388	2,388
Total current liabilities	5,102	5,610	5,468	5,580	5,609	5,636	5,715	5,809	5,902	5,888	5,970
Non-current liabilities											
Interest-bearing loans and borrowings	1,484	840	692	509	374	289	198	102	0	0	0
Provisions	665	665	665	665	665	665	665	665	665	665	665
Total non-current liabilities	2,149	1,505	1,357	1,174	1,039	954	863	767	665	665	665
Total liabilities	7,251	7,115	6,825	6,754	6,648	6,590	6,578	6,576	6,567	6,553	6,635
Net assets	239,289	240,893	241,736	255,005	256,690	258,743	261,170	264,104	267,585	271,684	276,444
Equity											
Accumulated surplus	76,611	78,315	79,158	80,357	82,042	84,095	86,522	89,455	92,937	97,036	101,796
Asset revaluation reserve	161,928	161,928	161,928	173,998	173,998	173,998	173,998	173,998	173,998	173,998	173,998
Other reserves	750	650	650	650	650	650	650	650	650	650	650
Total equity	239,289	240,893	241,736	255,005	256,690	258,743	261,170	264,103	267,585	271,684	276,444

Long Term Financial Plan	Forecast Actual	Budget	Long Term Financial Plan Projections								
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)	Inflows (Outflow)
Cash flows from operating activities											
Receipts											
Rates and charges	16,171	17,234	17,738	18,809	19,709	20,633	21,603	22,607	23,670	24,779	25,945
Grants - operating	7,129	7,808	4,828	5,086	5,295	5,507	5,728	5,955	6,194	6,442	6,701
Grants - capital	3,590	905	1,717	1,800	1,866	1,933	2,003	2,074	2,149	2,228	2,309
Interest	150	155	152	154	155	155	155	154	155	155	155
User fees	1,098	743	760	800	833	867	901	937	975	1,014	1,054
Statutory fees and fines	271	278	282	294	303	312	322	331	341	351	362
Other revenue	270	445	444	434	434	447	461	475	489	504	519
	28,679	27,568	25,921	27,377	28,595	29,853	31,173	32,533	33,973	35,471	37,045
Payments											
Employee benefits	-9,428	-8,317	-8,430	-8,780	-9,054	-9,326	-9,611	-9,893	-10,192	-10,498	-10,817
Materials and consumables	-12,912	-11,637	-11,142	-11,549	-11,910	-12,248	-12,617	-12,987	-13,380	-13,782	-14,200
Other expenses	-193	-202	-205	-213	-220	-227	-233	-240	-248	-254	-263
	-22,533	-20,156	-19,777	-20,542	-21,184	-21,801	-22,461	-23,120	-23,820	-24,534	-25,280
Net cash provided by operating activities	6,146	7,412	6,144	6,835	7,411	8,052	8,712	9,413	10,153	10,937	11,765
Cash flows from investing activities											
Proceeds from sales of property, plant and equipment	2,040	300	300	300	300	300	300	300	300	300	350
Repayment of loans and advances	-525	0	0	0	0	0	0	0	0	0	0
Payments for property, plant and equipment	-9,561	-6,770	-7,511	-7,400	-8,400	-9,400	-9,500	-10,400	-10,000	-8,670	-8,600
Net cash used in investing activities	-8,046	-6,470	-7,211	-7,100	-8,100	-9,100	-9,200	-10,100	-9,700	-8,370	-8,250
Cash flows from financing activities											

Finance costs	-160	-120	-72	-47	-37	-27	-20	-15	-9	-3	0
Repayment of borrowings	-626	-636	-610	-173	-184	-134	-85	-91	-96	-102	0
Net cash provided by (used in) financing activities	-786	-756	-682	-220	-221	-161	-105	-106	-105	-105	0
Net increase (decrease) in cash and cash equivalents	-2,686	186	-1,749	-485	-910	-1,209	-593	-793	348	2,462	3,515
Cash and cash equivalents at beg of year	9,154	6,468	6,654	4,905	4,420	3,510	2,301	1,708	915	1,263	3,725
Cash and cash equivalents at end of year	6,468	6,654	4,905	4,420	3,510	2,301	1,708	915	1,263	3,725	7,240

Long Term Financial Plan

	Forecast	Long Term Financial Plan Projections									
	Actual	Budget	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	2014/15	2015/16	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capital works areas											
Land	1,613	190	0	0	0	0	0	0	0	0	0
Buildings	1,450	397	1,768	2,081	2,304	2,530	3,484	2,487	2,510	2,510	2,510
Plant, machinery and equipment	970	770	1,012	1,002	1,004	1,006	1,008	1,319	1,119	1,119	1,119
Fixtures, fittings and furniture	190	250	294	294	294	294	324	294	325	325	325
Roads	3,562	3,561	4,012	3,550	4,311	4,908	3,860	5,707	5,446	4,116	4,046
Bridges	717	1,052	385	432	441	610	766	463	519	519	519
Footpaths and cycle ways	105	149	35	34	36	39	41	109	52	52	52
Drainage	599	339	5	7	10	13	17	21	29	29	29
Waste management	275	0	0	0	0	0	0	0	0	0	0
Kerb and Channel	80	62	0	0	0	0	0	0	0	0	0
Total capital works	9,561	6,770	7,511	7,400	8,400	9,400	9,500	10,400	10,000	8,670	8,600
Represented by:											
Asset renewal	7,937	6,216	6,384	6,290	7,140	7,990	8,075	8,840	8,500	7,370	7,310
New assets	523	147	376	370	420	470	475	520	500	434	430
Asset upgrade	1,101	407	751	740	840	940	950	1,040	1,000	867	860
Total capital works	9,561	6,770	7,511	7,400	8,400	9,400	9,500	10,400	10,000	8,670	8,600