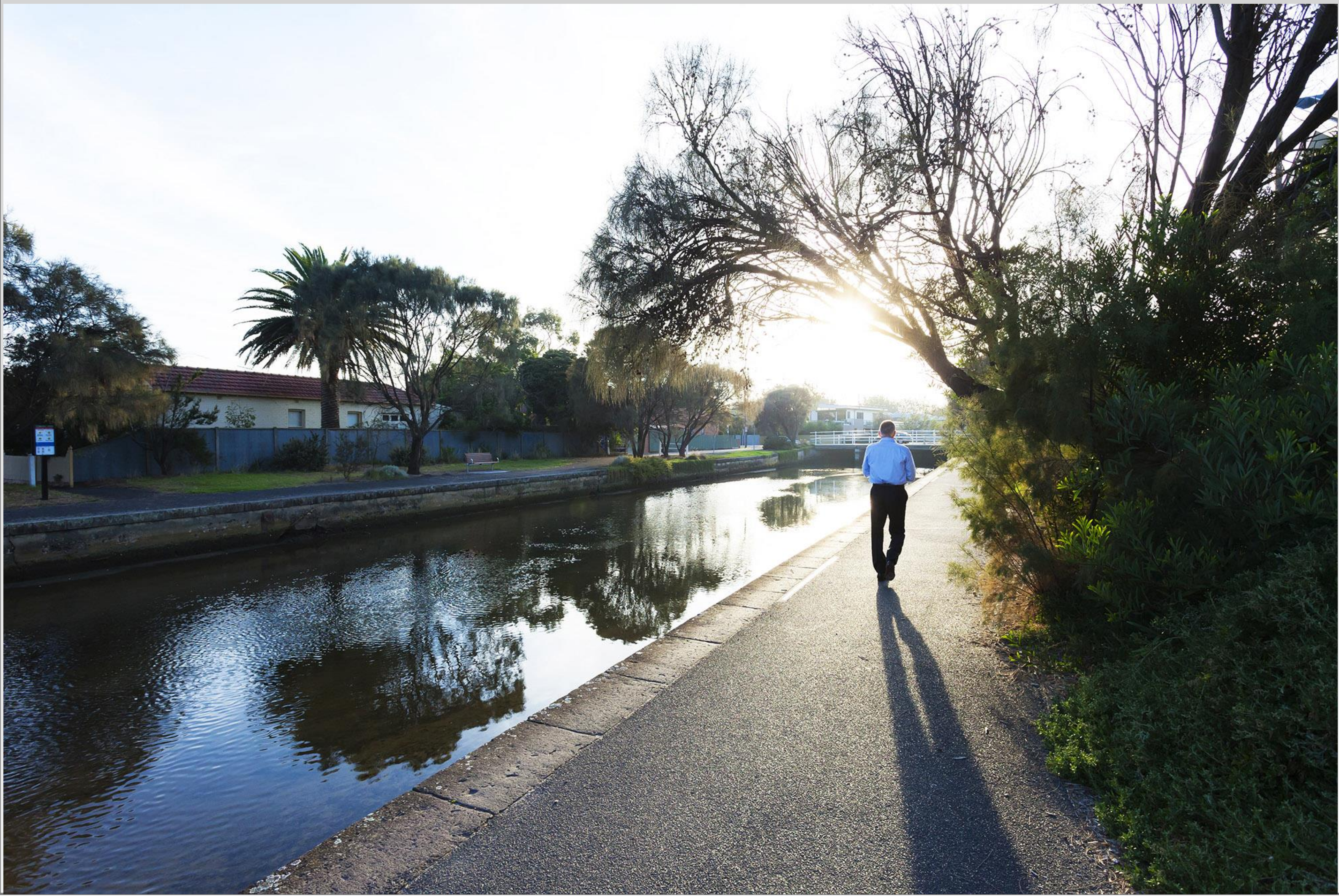
10-Year Financial Outlook

2018-2028



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1. Overview and Context

1.1 Background

Financial sustainability is a key objective of the City of Port Phillip (Council), as a sound financial base is required for Council to continue to deliver valued services to the community.

The 10-Year Financial Outlook (Outlook) supports Council to achieve financial sustainability, particularly in the face of the significant challenge posed by the introduction of rates capping. The Outlook also provides the context within which the Council can formulate the Council Plan, Strategic Resource Plan, and Budget and enable the Council to plan for the financial impacts of growth.

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

The financial resources outlined in the Outlook are used to deliver council services and strategic initiatives as outlined in the Council Plan 2017-2027.

1.2 The Impact of Rates Capping

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

The level of the rates cap in 2018/19 and beyond is still highly uncertain. The Essential Services Commission (ESC), Victoria's independent economic regulator, recommended that the rates cap be set a level that reflects movements in the consumer price index (CPI) and the wage price index (WPI), as wages form a significant proportion of council's costs.

For 2017/18 the ESC recommended a 2.15% rate cap based on its formula. However this was not accepted by the Minister of Local Government and instead a lower cap of 2.0% based solely on CPI was applied. This follows from a lower cap applied in 2016/17 of 2.5% compared to the ESC recommended cap of 2.8%. The rates cap for 2018/19 will not formally be announced by the State Government until late December 2017.

Work is in progress by the ESC to release a position paper expected in December 2017 following the consultation process which outlined a number of methodologies in setting the efficiency factor for the rates cap formula. It is possible that future rates cap could be less than CPI.

The Outlook assumes a rate cap based on the current ESC recommended methodology. However, given the uncertainty, scenario analysis has been completed for a rates cap assumption of 1.5%.

While the rates capping impact has been addressed over the 10-year outlook under the ESC methodology, the accumulated challenge using CPI is quantified at $7.4 million and $31.9 million if 1.5% per annum is used.

The full impact of funding and financing Fisherman's Bend Urban Renewal Area (FBURA) has not been included due to the uncertainty around the quantum and timing of capital investments and consequential operational and infrastructure servicing expenditure (whole of life costing). Officers are working collaboratively with the FBURA taskforce towards a robust Funding and Financing Strategy to achieve the Vision of FBURA and operate within financially sustainable targets.

Rates capping continues to be a major challenge to Council (and the whole sector) which will require fundamental changes to the way Council operates. Council's approach to meeting this challenge is outlined below.

Rates capping challenge

	2018/19	2019/20	2020/21	2021/22	2027/28
Rates cap consistent with the ESC's methodology (base case)					
Rate increase	2.43%	2.37%	2.57%	2.58%	2.28%
Accumulated rates capping challenge	$2.3m	$7.3m	$14.7m	$18.2m	$18.0m
Rates cap links to CPI (Deloitte Access Economics)					
Rate increase	2.08%	2.14%	2.41%	2.45%	2.45%
Accumulated rates capping challenge	$2.1m	$6.5m	$13.1m	$16.1m	$11.0m
Rates cap at 1.5% per annum					
Rate increase	1.50%	1.50%	1.50%	1.50%	1.50%
Accumulated rates capping challenge	$1.7m	$5.0m	$10.7m	$11.8m	($12.8m)

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

Addressing the rates capping challenge

Over the next 10 years, we will face many challenges that require strong financial leadership and creative solutions to overcome them. Key among these challenges will be rates capping. Embedded in our Financial Plan 2017-27 which identifies a cumulative $35 million funding gap due to rate capping is our financial strategy.

Our financial strategy is to closely monitor the affordability of services, and recognise ongoing community concerns about the financial impost of rates and the cost of other essential services. As such, we are not planning to apply for a rate increase above the rates cap over the life of the Outlook.

We plan to balance the budget and close the rates cap gap by adjusting the following strategic levers:

1. **Delivering efficiency and cost savings**
   The community's expectations for better value service delivery are of primary concern to Council. Council's recent history of productivity (doing more with the same resources) and efficiency (doing more or same with less resources) has achieved $9 million of budget savings in the last four financial years. This includes $2 million of budget savings in 2017/18.

   Embedded in the Outlook are efficiency saving targets between $1.6 million to $2.0 million, 1% to 1.5% of operating expenditure (less depreciation) over the 2018-2027 period. This is expected to reduce our cost base by a cumulative $22.5 million. A $1.6 million target has been set for the Budget 2018/19.

   Key initiatives to deliver these savings include a service review program to better define service requirements and target support, a commitment to better practice procurement and asset management, the sale of surplus properties, and investment in business process and system improvement.

2. Setting fair and appropriate user charges
The annual budget process includes a thorough review of user charges to ensure they remain affordable, fair, and appropriate. We believe that those who directly benefit from and/or cause expenditure should make an appropriate contribution to the service balanced by the capacity of people to pay.

The Outlook links user fee increases to CPI plus 0.25% over 2018-2027 period. The application and impact of this policy setting will be viewed annually to ensure affordability and fairness.

3. Careful management and prioritisation of expenditure
We undertake a rigorous and robust budget setting process each year, including a line by line review of operating budgets and proposed projects to ensure alignment with strategic priorities and best value. Performance is monitored closely throughout the year with forecasts updated monthly and quarterly financial review for Council endorsement.

In addition to the disciplined budget setting and expenditure monitoring, the strategy in the Outlook provides $4.2 million per annum for operating projects. This represents a minor reduction compared to historical expenditure levels, resulting in cumulative savings of $2.0 million over the 2018-2027 period.

Our focus on improved asset management sees investment prioritised on assets most in need of intervention rather than those in relatively good condition. This translates to an increase in spending on buildings, drainage and technology over the Outlook period, partially offset by reducing road and footpath renewal budgets.

We will consider service delivery options, including fundamental changes to the way services are targeted and delivered and consideration of service level reductions in areas of lower strategic priority.

4. Appropriate use of borrowings and reserves
We will have a prudent and fiscally responsible approach towards the use of new debt for strategic property acquisitions, funding community capital works or operating projects that will provide inter-generational community benefit and work that deliver revenue streams to repay debt. Borrowing will not be used to fund ongoing operations.

The Outlook includes refinancing a $7.5 million loan due to mature in 2021/22 on interest only terms for a further 10 years. This is expected to release $5.3 million in cash over the 2018-2027 period while maintaining very low debt levels.

We use reserves where appropriate to invest in one-off new or improved assets where this is considered more efficient than the use of debt.

We maintain general reserves at levels sufficient to ensure operational liquidity. Reserves may be built up over time to part-fund large capital projects where this is considered more efficient than the use of debt.

General reserves are an internal source of borrowing for projects that will benefit future generations such as Ferrars Street Education and Community precinct works.

We will continue to use open space contributions for investment in parks and foreshore open space assets.

Progressive build-up of the Palais Theatre Reserve funded from significantly increased rental returns following the successful leasing process in 2016/17 to ensure funds are available to maintain the theatre over the long-term.

1.3 Growth in the Municipality

The Council faces a period of significant growth in the municipality due to development in FBURA. Current planning projections provide for a possible population increase of 80,000 people by 2050, over 80% of the current population in the municipality. Council is continuing to invest in planning for growth in the municipality, including FBURA, to ensure that service outcomes meet the expectations of current and future generations.

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

The State Government is currently in the process of preparing a Developer Contributions Plan for FBURA which will outline future investment needs and funding sources.

Due to the uncertainty associated with the future investment profile, no further investment has been incorporated in this Outlook, beyond the immediate proposal for the Montague Precinct – Ferrars St Precinct works and strategic catalytic projects driven by future service requirements for Council have been included in the Outlook. Council will continue to update its financial planning for FBURA as new information becomes available.

1.4 Climate Change and Renewing Community Assets

Council owns and controls a wide variety of assets ranging from land and buildings to roads, drains, footpaths and open space improvements. The total value of Council's fixed assets is $2.9 billion and is largely the product of investment by prior generations in the municipality. Consistent with the trend across the local government sector, Council is facing escalating costs to maintain and renew its ageing asset base.

Much of the City is only one to three metres above sea level and therefore vulnerable to the impacts of climate change. It is expected that flooding of coastal properties and public amenities, storm damage to infrastructure and beach erosion are examples of climate change impacts. In responding to climate change, upgrading and renewing our assets will need to be designed and built to suit. This means additional costs.

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

1.5 Impacts of State and Commonwealth Government Legislation and Policy

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

- The indirect impact of Government policies that formally or informally transfer service responsibility to Council , for example Council currently allocates resources to supporting social housing ($500,000), a public policy area that in many respects should be the responsibility of State and Commonwealth Governments
- The introduction of the congestion levy, which is being partly funded by a contribution of rates revenue to mitigate the significant negative impact on visitation and trade in the areas where the levy applies (in addition to an increase in parking fees).
- Additional capital expenditure budget will be required to ensure Council buildings are compliant in accordance with the Disability Discrimination Act and Building Code Compliance.
- Heightened awareness of acts of terrorism in public places require stricter Emergency Management resourcing.
- Pending legislation changes including the Local Government Act review with the standardisation of valuation methodology for rating purpose to Capital Improved Value, the centralisation of property valuation function back to Valuer-General, and the annualisation of property valuation process will result in additional costs to Council.

1.6 Rapid Evolution of Technology

The world is becoming more connected. People, businesses and governments are increasingly moving online to connect, deliver and access services, obtain information and perform activities like shopping and working. Technology is also changing the way our residents work. Around one in every 12 workers works from home.

We can expect increasing demand for council services to be delivered online, and engagement through social media and other digital means.

We will need to respond to this demand and think about how we operate and support people to connect with Council, particularly those who have limited online access and/or digital literacy. The digital shift will reshape how we deliver services and engage our community in decision making.

Technological advances also present opportunities for Council to consider new methods of service delivery, such as electronic parking management, that have the potential to offer efficiencies and improved community outcomes. New technologies will enable our workforce to be more mobile and deliver services that support community health and wellbeing where, when and how they want them.

Investment in the technology requires upfront capital investment with payback from ongoing efficiencies and savings. Rapid change not managed properly can lead many issues that impact on services to customers, staff morale and process inefficiencies. Over the life of the Outlook, we plan to invest a minimum of $25 million in technology to transform into the digital space and offer a greater and better customer experience.

1.7 Financial Outcomes

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

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

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

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

Working Capital – This is a measure of current assets to current liabilities in determining the Council's ability to pay existing liabilities that falls within the next 12 months. The outlook is expected to remain above 100%, peaking at 222% and the lowest point at 184%.

Renewal Gap – This measures the spending on existing assets through renewal and upgrade compared to depreciation. A ratio100% or higher indicates spending on existing assets is faster than the rate of asset deterioration. The Outlook presents a significant investment portfolio over the 10 year planning horizon on existing assets, achieving renewal gap ratio between 118% (lowest) and 136% (highest). This recognises that in the past two years, we have been below 100% and the need for upgrades driven by safety (BCA) and accessibility (DDA) legislation.

2. Financial Sustainability

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

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

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

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

Financial principles		Measures
1. CoPP will have fair, affordable and stable revenue and financing mechanisms	1	Funding is prioritised towards achieving Council strategies and priorities and in accordance with key policies
	2	The distribution of costs and revenue will be fair and reasonable with a level of consistency in treatment
	3	The capacity of people to pay will be considered in determining the appropriate mix of funding mechanisms
	4	Where benefits from an investment are to be enjoyed across future generations, those future generations should contribute to the cost
	5	Those who directly benefit from or cause expenditure will make a contribution towards its funding
	6	Funding mechanisms will be transparent, practical to implement and not involve unreasonable transaction costs
	7	Growth in universal services will be funded through growth in the rates and broader revenue base associated with growth
	8	Rate revenue will remain at a stable percentage of total underlying revenue (target between 60% and 65% of total underlying revenue) and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.

Financial principles		Measures
2. CoPP will have an ongoing sustainable and balanced budget and ideally a small cash surplus.	9	Expenditure on operating activities will be in line with or lower than income from operating activities, producing a surplus. Any surplus achieved will be used to repay debt or carried over to subsequent years.
	10	Net cash outflow from operational activities, capital activities and financing activities will be in line with or lower than cash inflow from operational activities, producing a cash surplus. A positive cash surplus balance any budgeted year is targeted.
	11	Net cash flow from operations is to generate sufficient cash to fund capital works over the long term. Internal financing ratio to be greater than 100%.
3. The CoPP asset base will be maintained, enhanced and expanded.	12	The total pool of assets will increase in value each year – excluding the effect of any revaluation adjustments and sale of assets of lower strategic value.
	13	Capital Expenditure compared to depreciation is to be greater or equal to 150% over a medium to long term planning horizon.
	14	Assets will be managed in accordance with community need, optimum utilisation and long-term efficiency.
	15	Capital expenditure on existing assets (asset renewals and upgrades) will be higher than depreciation over a medium to long term planning horizon.
4. Capital will be managed in the most efficient manner possible.	16	General reserves will be maintained at levels sufficient to ensure operational liquidity. Working Capital Liquidity Ratio (current assets compared to current liabilities) is to be at least 100%.
	17	Council will consider new loans for strategic property acquisitions, funding community capital works projects that will provide inter-generational community benefit and work that deliver revenue streams to repay debt.
	18	Prudent use of debt shall be subject to and achieving the following metrics; • Indebtedness ratio (Non-current liabilities compared to Own Source revenue) is to maintain below 40%. • Loans & Borrowings compared to rates is to maintain below 70% • Loans & Borrowing repayments compared to rates is to maintain below 20%.
	19	Reserves may be built up over time to enable Council to part fund periodic large capital expenditure items where this is considered more efficient than the use of debt.
5. CoPP will proactively develop and lead an efficient and effective organisational culture.	20	In order to deliver better value to our growing community, Council will support the development of policy and practice in the workplace to increase organisational innovation, effectiveness and efficiency.
	21	The organisation will target delivery of productivity and efficiency savings of greater than 1% of operating expenditure less depreciation per annum.

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

2.1 Use of Rate Revenue

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

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

2.2 Use of Borrowings

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

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

2.3 Infrastructure and Asset Management

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

- Council is committed to spending what is required to renew and enhance its asset base to ensure its ongoing fitness for use. The capital budget takes into account expected asset deterioration, increased asset utilisation (capacity requirements) and technology development.
- Renewal of existing assets is generally funded from the depreciation expense that is provided each year. This needs to be applied to the different asset subsets (drainage, roads, buildings and land improvements) to ensure consistency across the entire network of assets that Council manages.

- Maintenance of capital expenditure at levels that will replenish existing assets is a higher priority than debt reduction and investment in new assets, as asset funding shortfalls will transfer the liability to future generations.
- Asset acquisitions and capital works projects are funded from rate revenue, reserves, sales of existing assets, government grants or external borrowings.
- Council's investment and asset management strategies, purchasing arrangements and other financial tools should encourage environmental responsibility.

2.4 Measuring Financial Sustainability – VAGO Financial Sustainability Indicators

We use the Victorian Audit General Office (VAGO) financial indicators to measure our financial sustainability risk. Our strategy is to ensure we achieve an overall low risk rating. The Outlook shows we expect to be financially sustainable with an overall low risk rating. Refer to Section 7 for the performance over the 10 year outlook.

3. Financial Resource Planning Assumptions and Risks

3.1 Financial Assumptions

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

The financial information used for 2017/18 (the base year) is based on Council's October 2017 forecast. The revenue and expenditure associated with growth has been separated from all other Council activities for the purposes of this Outlook. The assumptions associated with growth are included in the 'Planning for growth' section below.

A detailed explanation of planning assumptions is provided below.

<table>
<tr><th>Assumption</th><th colspan="5">Rationale</th></tr>
<tr><td rowspan="3">Consumer Price Index (CPI)</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td><td>2027/28</td></tr>
<tr><td>2.08%</td><td>2.14%</td><td>2.41%</td><td>2.45%</td><td>2.45%</td></tr>
<tr><td colspan="5">Based on the most recent forecast from the Deloitte Access Economic Business Outlook for the Victorian Consumer Price Index.</td></tr>
<tr><td rowspan="3">Rates cap – base case
(ESC recommended methodology)</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td><td>2027/28</td></tr>
<tr><td>2.43%</td><td>2.37%</td><td>2.57%</td><td>2.58%</td><td>2.28%</td></tr>
<tr><td colspan="5">The final rates cap for 2018/19 will not be announced until December 2017. Further, there remains some uncertainty as to the level of the rates cap in future years, particularly as the ESC plan to have a position paper by February 2018 on the setting of the efficiency factor for rates cap.
For the purposes of the Outlook, Council has used forecasts from the Deloitte Access Economic Business Outlook for the Consumer Price Index and Wage Price Index.</td></tr>
<tr><td rowspan="3">Alternative rates cap scenario
(1.5% per annum)</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td><td>2027/28</td></tr>
<tr><td>1.50%</td><td>1.50%</td><td>1.50%</td><td>1.50%</td><td>1.50%</td></tr>
<tr><td colspan="5">Given the uncertainty surrounding the State Government's position on the rates cap, Council has modelled a rates cap scenario at 1.5% per annum.</td></tr>
<tr><td>Growth in the rate base</td><td colspan="5">1.3% per annum based on latest population growth data from Profile ID and Fisherman's Bend Taskforce.</td></tr>
<tr><td>Parking revenue</td><td colspan="5">Parking fees is linked to CPI plus 0.25% per annum and fines by 2.0% per annum.</td></tr>
<tr><td rowspan="2">User fees and charges</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td><td>2027/28</td></tr>
<tr><td colspan="4">Increased by CPI plus 0.25% from 2018/19 to 2026/27</td><td>CPI</td></tr>
<tr><td>Open space contributions</td><td colspan="5">Remains constant at $4.1 million per annum plus forecast contributions from Fisherman's Bend</td></tr>
<tr><td>Government grants</td><td colspan="5">Operating grants increased by CPI. Capital grants identified for projects in the first four years and a $1.3 million provision in the out-years.</td></tr>
<tr><td rowspan="3">Interest received</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td><td>2027/28</td></tr>
<tr><td>2.40%</td><td>2.90%</td><td>3.50%</td><td>3.80%</td><td>3.80%</td></tr>
<tr><td colspan="5">Based on the Deloitte Access Economic Business Outlook forecast for the 90 day bank bill rate plus 50 basis points.</td></tr>
</table>

Assumption	Rationale
Employee costs	Employee benefits to increase by 2.0% for 2018/19 (last year of the current EBA) and the out-years linked to the annual rates cap.
Contract services, utility costs, professional services, materials and other expenditure	Increased by CPI or contractual arrangements. Utility costs are expected to be higher than CPI at 3.28% per annum based on forecasts from Australian Energy Market Operators. Further energy sustainability investments including Melbourne Renewaable Energy Project will increase utility costs by approximately $200,000 from 2018/19.
Service growth	The cost of service growth is equivalent to the increase in rates revenue attributable to increase in the rates base (that is, it is assumed that the benefit of new assessments is wholly offset by the cost to service them).
Depreciation	Depreciation has been increased as a product of new assets being created consistent with the planned capital program.
Operating projects	Total operating projects to be capped to $4.2 million from 2017/18 and increases by annual CPI.
Capital projects	An allowance of $43.7 million in 2018/19, escalated by annual CPI, increases due to renewals expenditure based on an increase in Council's asset base, and increases due to service growth. Annual capital project budgets will target renewal gap ratio greater than 100% and capital replacement ratio greater than 150%.
Borrowings	Council review borrowing as part of developing the Council Plan and Budget. The prudent use of borrowing is to be consistent with Council principles for the purposes of smoothing out major financial shocks, inter-generational significant capital projects and for growth related capital projects.
Reserves	The use of reserves remains consistent with past practice. This includes the following assumptions: • open space receipts and out-goings are equivalent (each year) • sustainable transport reserve receipts and out-goings are equivalent (each year) • proceeds from sale of non-strategic properties are quarantined in reserves for future strategic property acquisitions.

3.2 Financial Risks

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

- The Funding and Financing Strategy for FBURA has not yet released. Due to this uncertainty, risk exists for a large funding gap due to the infrastructure desired comparing to funding available.
- A 0.1% rate capping increase lower than the ESC recommended rate increase will result in a $121,000 revenue loss per annum. If this occurs in the first year of the Outlook (2018/19), the follow-on revenue loss totalling $1.5 million over the life of the 10-year Outlook.
- More subdued property development which may result in the rates revenue base growing at a lower rate than the current 1.3% growth assumption, (every 0.1% reduction in growth equates to a $121,000 revenue loss)

- Lower than expected parking revenue, which forms the second largest revenue source for council, is historically volatile and is impacted by the macro-economic environment (a 1.0% reduction in revenue from parking fees and fines equates to a $340,000 revenue loss)
- A future unfunded defined benefits superannuation call occurring
- Future reductions in funding from other levels of Government or increases in cost shifting
- A major, unexpected, asset renewal issue.

4. Planning for Growth

The Council faces a period of significant growth in the municipality due to development in FBURA. Current planning projections provide for a possible population increase of 80,000 people by 2050, over 80% of the current population in the municipality.

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

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

Recently, Council is working closely with State Government to deliver on a package of work in the Montague Precinct estimated at $49.1 million, where development is occurring first within FBURA. This Outlook includes financial outcomes from works agreed with State Government and known proposals only.

The agreed capital investment includes:

- Community facilities and netball courts in a joint development with a proposed primary school at Ferrars Street, South Melbourne expected completion in 2018.
- Strategic acquisition of an open space land on Buckhurst Street, South Melbourne adjacent to the Ferrars Street community centre.
- Streetscape works needed to make the proposed school safe and accessible
- Remediation and improvement works for the acquired land fit for open space use

The State Government is currently in the process of preparing a Developer Contributions Plan for FBURA which will outline future investment needs and funding sources (beyond the investment outlined above). Due to the uncertainty associated with the future investment profile, no further investment has been incorporated in this Outlook, beyond the immediate proposal for the Montague Precinct outlined above. Council will continue to update its financial planning for FBURA as new information becomes available.

5. Non-Financial Resources

5.1 Organistional Strategy

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

Our Commitment to You helps deliver the Council's strategic goals for the organisation to a financially sustainable, high performing, well-governed organisation that puts the community first.

To build Council capability, the Our Commitment to You strategy has five key priority areas of enterprise-wide focus:

- Improving customer experience and technology and being more innovative
- Improving community engagement, advocacy, transparency and governance
- Inspiring leadership, a capable workforce and culture and high performance and safety
- Ensuring sustainable financial and asset management and effective project delivery.
- Embedded social and environmental responsibilities.

5.2 Council Staff

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

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

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

The Outlook includes a projection of full time equivalent staff.

	Forecast	Projections									
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Full Time Equivalent (FTE)	FTE	FTE	FTE	FTE	FTE	FTE	FTE	FTE	FTE	FTE	FTE
Employees	851	863	870	879	888	896	904	913	922	930	938
Total FTE	**851**	**863**	**870**	**879**	**888**	**896**	**904**	**913**	**922**	**930**	**938**

6. Financial Statement

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

	Forecasts	Projections									
	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	2025/26 $'000	2026/27 $'000	2027/28 $'000
Income											
Rates and charges	120,769	125,137	129,942	135,185	140,646	146,250	151,997	157,887	163,918	170,090	176,403
Statutory fees and fines:											
• Parking fines	18,637	19,010	19,390	19,778	20,174	20,577	20,989	21,409	21,837	22,274	22,719
• Other statutory fees and fines	4,073	4,154	4,237	4,322	4,408	4,496	4,586	4,678	4,772	4,867	4,964
User fees:											
• Parking fees	16,466	16,643	17,332	17,793	18,273	18,766	19,273	19,793	20,327	20,876	21,387
• Other user fees	17,951	19,266	19,724	18,946	19,455	19,978	20,515	21,067	21,633	22,215	22,760
Grants - operating	9,607	10,515	10,740	10,930	11,198	11,472	11,753	12,041	12,336	12,638	12,948
Grants - capital	5,785	4,585	1,400	3,400	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Contributions - monetary	8,330	4,488	4,773	6,997	5,063	5,131	5,252	5,331	5,373	5,405	5,437
Other income	14,954	14,364	14,763	15,953	16,076	16,991	17,132	18,093	18,032	18,730	18,780
Total Income	**216,572**	**218,162**	**222,301**	**233,304**	**236,593**	**244,961**	**252,797**	**261,599**	**269,528**	**278,395**	**286,698**
Expenses											
Employee costs	89,037	91,537	94,681	97,251	101,427	105,613	110,050	114,620	119,323	123,653	128,081
Materials and services	78,314	70,329	72,387	74,690	77,019	79,580	82,767	86,153	88,971	91,980	97,691
Bad and doubtful debts	3,478	3,350	3,422	3,504	3,590	3,678	3,768	3,861	3,956	4,053	4,152
Depreciation and amortisation	24,430	25,338	26,289	27,341	28,440	29,576	30,751	31,965	33,220	34,518	35,859
Borrowing costs	469	490	520	550	580	714	744	774	804	834	864
Other expenses	16,931	8,679	8,865	9,146	9,370	9,600	9,835	10,076	10,323	10,576	10,835
Net (gain)/loss on disposal of property, infrastructure, plant and equipment	7,736	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715	2,715
Total Expenses	**220,395**	**202,438**	**208,879**	**215,198**	**223,141**	**231,476**	**240,630**	**250,164**	**259,312**	**268,328**	**280,196**
Operating Surplus/(Deficit) for the year	**(3,823)**	**15,724**	**13,422**	**18,106**	**13,452**	**13,485**	**12,167**	**11,435**	**10,216**	**10,067**	**6,502**
Income Statement Converted to Cash											
Adjustments for non-cash operating items:											
• Add back depreciation	24,430	25,338	26,289	27,341	28,440	29,576	30,751	31,965	33,220	34,518	35,859
• Add back written-down value of asset disposals	9,246	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
• Add back non-cash Child Care Infrastructure Levy transfer											
• Add back balance sheet work in progress reallocated to operating	1,200	1,225	1,251	1,281	1,312	1,344	1,377	1,411	1,446	1,481	1,517
Adjustments for investing items:											
• Less capital expenditure (deferrals funded from reserves)	(35,029)	(43,702)	(41,921)	(42,862)	(44,439)	(45,162)	(46,201)	(47,865)	(49,665)	(51,856)	(53,412)
Adjustments for financing items:											
• Less Loan Repayments	-	-	-	-	(7,500)	-	-	-	-	-	-
• Less Lease Repayments	(700)	(670)	(640)	(610)	(580)	(550)	(520)	(490)	(460)	(430)	(400)
• Add New Borrowings	-	-	-	-	7,500	-	-	-	-	-	-
Adjustments for reserve movements:											
• Statutory Reserve Drawdown/ (Replenish)	(2,705)	(1,132)	(430)	(1,329)	1,197	189	198	-	-	-	-
• Discretionary Reserve Drawdown/ (Replenish)	6,886	348	(942)	(4,905)	(2,384)	(1,893)	(742)	508	2,255	3,103	7,048
Cash Surplus/(Deficit) for the Year	**(495)**	**131**	**29**	**22**	**(2)**	**(11)**	**30**	**(36)**	**12**	**(118)**	**114**
Opening Balance - Cash Surplus	880	385	516	544	567	564	554	584	548	561	443
Closing Cash Surplus Balance	**385**	**516**	**544**	**567**	**564**	**554**	**584**	**548**	**561**	**443**	**557**
Total Borrowings (incl Finance leases)	**8,715**	**8,672**	**8,629**	**8,586**	**8,543**	**8,500**	**8,457**	**8,414**	**8,371**	**8,328**	**8,285**

7. Key Financial Indicators

7.1 VAGO Financial Sustainability Risk Indicators

The Victorian Audit General Office (VAGO) audits Council's finances and assesses against a number of financial indicators to arrive at an overall assessment of financial sustainability. CoPP is to achieve a low risk overall assessment score from VAGO.

		Forecast	Budget	Projections								
Indicator	**Indicator Targets**	**2017/18**	**2018/19**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**
Net Result %	Greater than 0%	-1.8%	7.2%	6.0%	7.8%	5.7%	5.5%	4.8%	4.4%	3.8%	3.6%	2.3%
Working Capital	Working Capital Ratio >100%	215%	210%	210%	189%	222%	222%	220%	216%	209%	200%	184%
Internal Financing	Net cashflow from operations to net capital expenditure >100%	89%	102%	108%	119%	108%	109%	106%	104%	100%	99%	92%
Indebtedness	Indebtedness ratio <40%	5.7%	5.6%	5.4%	1.7%	5.1%	5.0%	4.9%	4.7%	4.6%	4.5%	4.4%
Capital Replacement	Capital to depreciation >150%	143%	172%	159%	157%	156%	153%	150%	150%	150%	150%	149%
Infrastructure Renewal Gap	Renewal & upgrade to depreciation >100%	120%	136%	123%	119%	123%	121%	119%	118%	118%	119%	118%
Overall Financial Sustainable Risk Rating		Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

7.2 Local Government Performance Reporting Framework Indicators

The Local Government Performance Reporting Framework requires Council to report our performance in the knowyourcouncil website accessible to the community using a set of indicators.

		Forecasts	Budget	Projections								
Indicator	**Acceptable Range**	**2017/18**	**2018/19**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**
Average residential rate per residential property assessment	$700 to $2,000	1,484	1,513	1,547	1,584	1,625	1,664	1,703	1,741	1,780	1,819	1,858
Expenditure per property assessment	$2,000 to $5,000	3,017	2,787	2,840	2,890	2,959	3,032	3,113	3,196	3,272	3,343	3,448
Current assets compared to current liabilities	100% to 400%	215.0%	209.5%	210.4%	189.3%	221.7%	222.4%	220.5%	216.3%	208.8%	199.8%	184.0%
Unrestricted cash compared to current liabilities	10% to 300%	107.3%	101.4%	103.6%	97.8%	119.6%	123.0%	123.9%	122.0%	116.8%	109.9%	96.3%
Asset renewal compared to depreciation	40% to 130%	81.9%	92.3%	87.3%	84.0%	85.9%	84.0%	82.6%	82.4%	82.2%	82.6%	81.9%
Loans and Borrowings compared to rates	0% to 70%	7.2%	6.9%	6.6%	6.4%	6.1%	5.8%	5.6%	5.3%	5.1%	4.9%	4.7%
Loans and Borrowings repayments compared to rates	0% to 20%	1.0%	0.9%	0.9%	0.9%	6.2%	0.9%	0.8%	0.8%	0.8%	0.7%	0.7%
Non-current liabilities compared to own source revenue	2% to 70%	5.7%	5.6%	5.4%	1.7%	5.1%	5.0%	4.9%	4.7%	4.6%	4.5%	4.4%
Adjusted underlying surplus (or deficit)	-20% to 20%	-8.9%	3.2%	3.4%	3.5%	3.1%	3.0%	2.3%	1.9%	1.3%	1.2%	-0.1%
Rates compared to adjusted underlying revenue	30% to 80%	59.7%	59.8%	60.1%	60.6%	61.1%	61.3%	61.7%	61.9%	62.4%	62.6%	63.0%
Rates compared to property values	0.15% to 0.75%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%

8. Glossary

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

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

Balanced Budget
Cash inflow at the minimum equals cash outflow (including capital expenditure).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Underlying Revenue
Is total income/revenue excluding:

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

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

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

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

For more information, please contact us via:

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