

DAREBIN CITY COUNCIL

Strategic Resource Plan

2009-2013

Executive summary

In its Council Plan, the Darebin Council has made a promise to the Darebin Community:

As a democratic and accountable local government, we will strive in all what we do to achieve fairness through innovative and progressive leadership that respects and reflects our diverse community'.

A key part of this promise is the notion of fairness and equity in the decisions that Council makes. This is particularly relevant to the way in which Council raises income and allocates expenditure to fund the many services it delivers and infrastructure that it maintains and upgrades. The principles of fairness and equity guide the actions of Council and are reflected in the goals set out in the Council Plan. These principles underpin the development of this Strategic Resource Plan.

The Strategic Resource Plan (SRP) includes details of both the financial and non-financial resources required to achieve the strategic objectives included in the Council Plan. The SRP is part of Council's ongoing financial planning to assist in adopting each annual budget within a longer term framework. The SRP forms part of the Council Plan and contains key objectives, strategies and financial statements for the next four year period. In accordance with the Act, the SRP will be reviewed and updated each year.

The SRP supports Council achieving its goals within a framework of financial sustainability. Financial sustainability in the longer-term means that planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

The key objectives set out in this SRP are:

Service levels	We will maintain the scope and standard of ongoing services provided to the Darebin community and be flexible to address changing community needs with innovative services and facilities.
Capital works asset renewal	We will focus on renewing community assets such as roads, footpaths, open space and buildings to ensure they are maintained at an appropriate standard to meet required service levels.
Operating performance	We will ensure that Council generates sufficient ongoing income to fund its services and capital works commitments over the longer term.
Cash and liquidity	We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.

The objectives are each measured with specific financial indicators.

This SRP provides information on the key assumptions made in projecting Council's financial position over the next four years. It also sets out key Council strategies in relation to the rating structure, rating levels and borrowings.

The SRP has been developed through a rigorous process and is based on a range of key operating and balance sheet assumptions. Any significant adverse change in the key assumptions could result in the non-achievement of some or all of the financial objectives and accordingly the financial outcomes must be considered in light of these assumptions.

Based on the assumptions and modeling that has been performed, each of the objectives set out in the SRP are achieved. The SRP will be reviewed and updated each year to ensure it remains reflective of current circumstances and continues to support Council achieving its broader goals.

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1. Background

1.1 Legislative and policy framework

The Local Government Act 1989 (the Act) requires Council to prepare a Strategic Resource Plan (SRP) which includes both the financial and non-financial resources required to achieve the strategic objectives included in the Council Plan. The SRP forms part of the Council Plan and contains key objectives, strategies and financial statements for the next four year period.

In its Council Plan, the Darebin Council has made a promise to the Darebin Community:

As a democratic and accountable local government, we will strive in all what we do to achieve fairness through innovative and progressive leadership that respects and reflects our diverse community.

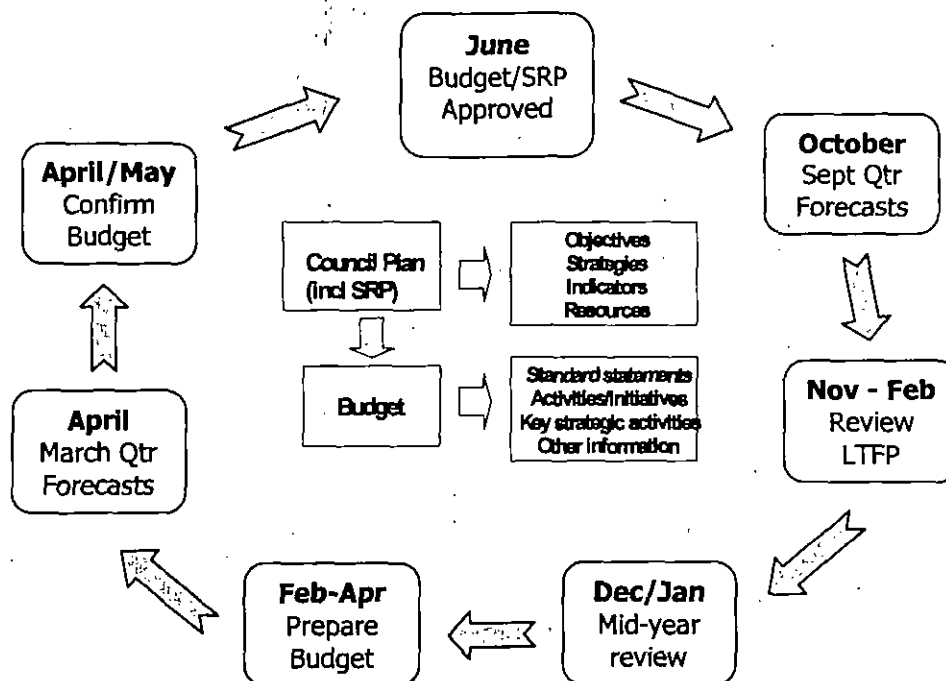
A key part of this promise is the notion of fairness and equity in the decisions that Council makes. This is particularly relevant to the way in which Council raises income and allocates expenditure to fund the many services it delivers and infrastructure that it maintains and upgrades. The SRP has been prepared within this context.

In preparing the SRP, Council has also been mindful of the need to comply with the following Principles of Sound Financial Management as contained in the Act:

- Prudently manage financial risks relating to debt, assets and liabilities
- Provide reasonable stability in the level of rate burden
- Consider the financial effects of Council decisions on future generations
- Provide full, accurate and timely disclosure of financial information.

1.2 Relationship to Council's financial framework

Council has a clearly-defined financial framework in place, which is depicted below.



The Council Plan and SRP provide the longer term framework within which the annual budget and annual service plans are developed. Actual financial performance against the budget is reviewed in detail and reported at different points in the annual cycle.

2. Objectives

The SRP supports Council achieving its goals within a framework of financial sustainability. Financial sustainability in the longer term means that planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

The key objectives set out in this SRP and the measures used to reflect these objectives are:

Objective	Measure
<p><u>Service levels</u></p> <p>We will maintain the scope and standard of ongoing services provided to the Darebin community and be flexible to address changing community needs with innovative services and facilities.</p>	<p>Allowance for continuity of services included within the annual budgets throughout the plan period.</p>
<p><u>Asset renewal</u></p> <p>We will continue to focus on renewing community assets such as roads, footpaths, open space and buildings to ensure they are maintained at an appropriate standard to meet required service levels.</p>	<p>Increase in the amount of capital expenditure allocated to asset renewal projects in Council's capital works program, expressed as a percentage of the amount required to maintain the assets, as measured by depreciation.</p>
<p><u>Operating performance</u></p> <p>We will ensure that Council generates sufficient ongoing income to fund its services and capital works commitments over the longer term.</p>	<p>Achieve an underlying operating surplus throughout the term of the SRP. The underlying surplus is measured after adjusting for capital grants that are not necessarily ongoing funding sources and timing differences on grants for provision of services.</p>
<p><u>Cash and liquidity</u></p> <p>We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.</p>	<p>Achieve a working capital ratio of at least 1.05 : 1 in 2009/10 and 2010/11, increasing to at least 1.1 : 1 in the later years of the plan</p>

The measures set out are generally consistent with some of the indicators used by external agencies such as the Auditor-General Victoria when assessing financial sustainability.

This SRP provides detailed information on the key assumptions made in projecting Council's financial position over the next four years. It also sets out key Council strategies in relation to rating structure, rating levels and borrowings.

3. Development of plan

The objectives and strategies set out in the SRP support the achievement of Council's broader goals. The financial projections set out in this SRP have been developed through a rigorous process and are based on the following key information:

- Audited financial statements as at 30 June 2008.
- 2008/09 Annual Budget and updated forecasts for 2008/09 prepared during March 2009.
- Assumptions provided by Council service unit managers about specific changes in future income and expenditure which are expected in order to continue providing the current service levels. These assumptions are reviewed in discussion with the Financial Services branch and General Managers.
- Assumptions provided by the Financial Services branch regarding key economic indicators and estimates, and future changes in assets, liabilities and equity.
- Detailed review and input provided by the Executive Management Team and Councillors.

The financial projections have been developed using a detailed model that produces the forecast financial statements for the next four years based on the assumptions that have been applied. The modeling is prepared at a detailed level for each operating program delivered by Council.



4. Assessment of Council's current financial position

Indicator	Adopted	Forecast	Variance
	Budget	Actual	
	2008/09	2008/09	
	\$'000	\$'000	\$'000
Net surplus	2,797	10,993	8,196
Underlying surplus (deficit)	(90)	282	372
Cash and investments	15,033	25,357	10,324
Working capital ratio	0.97	1.50	0.53
Underlying working capital ratio	1.28	1.96	0.69
Capital works	29,867	28,781	(1,086)
Capital works (renewal)	13,861	13,962	101
Borrowings outstanding	3,892	3,918	26

Before considering the key assumptions that have been applied to the financial modeling, it is useful to consider the base position in which Council enters into the SRP period.

Surplus

Council is expecting to achieve a net surplus of \$10.99 million in 2008/09, compared with an original budgeted net surplus of \$2.80 million. The better than budgeted result is due mainly to operating grants being received in the 2008/09 year which will be spent in the 2009/10 year, a significantly higher level of grants relating to capital works projects, and the receipt of Council's first quarter 2009/10 grants commission allocation early in June 2009.

After removing the impact of capital grants and timing differences relating to the receipt and expenditure of grants, an underlying surplus of \$0.28 million is expected in 2008/09 compared with a budgeted underlying deficit of \$0.09 million.

Cash and liquidity

Council is expected to hold \$25.36 million in cash and investments at 30 June 2009 compared with an original budget of \$15.03 million. The better than expected cash position is due mainly to capital grants received late in the financial year that will be expended during 2009/10, the early receipt of Council's first quarter 2009/10 grants commission allocation, and expenditure on capital works which will be incomplete at the end of the 2008/09 year and will be carried forward for completion in 2009/10.

The working capital ratio is a key measure of Council's ability to fund its short-term payment obligations. The ratio is measured by comparing current assets to current liabilities. The ratio is expected to be 1.50 at 30 June 2009, indicating that Council has sufficient short-term assets to meet its payment obligations. The underlying measure of working capital is higher and excludes the impact of employee leave entitlements that are not expected to be paid within the next 12 months.

Capital works

Total expenditure on the capital work program in 2008/09 is expected to be \$28.78 million compared with an original budget of \$29.87 million. \$13.96 million of the total forecast expenditure relates to the renewal of existing capital infrastructure.

Borrowings

Loan borrowings outstanding at 30 June 2009 are forecast to total \$3.92 million, in line with the original budget. This amount equates to 5% of total rates revenue and is relatively low compared with the local government sector, with the average borrowing level for metropolitan Councils in Victoria being around 20% of rates.

5. Key assumptions

5.1 General operating assumptions

The revenue and expenditure assumptions underlying the SRP include a range of assumptions both of a general and specific nature. The general operating assumptions affecting all revenue and expenditure are set out in the following table.

	2009/10	2010/11	2011/12	2012/13
	%	%	%	%
Consumer price index	2.5	2.5	2.5	2.5
Wages growth	4.0	3.0	3.0	3.0
Government funding	2.5	2.0	2.0	2.0
Statutory fees	2.5	2.0	2.0	2.0
Investment return	3.5	4.0	4.5	5.0

Consumer price index (cpi)

The annual inflation rate advised by the Australian Bureau of Statistics for the March 2009 quarter for Melbourne was 2.5 %. This level has reduced significantly from a peak of 5.0% in the September 2008 quarter, just six months earlier. The Victorian State Government Budget Papers for 2009/10 estimate CPI as 2.0% p.a. in 2009/10, 2.25% in 2010/11 and 2.5% for the final two years of the outlook period. For the purposes of developing the SRP, CPI has been set at 2.5% across the forecast period and has been applied to all revenue and expense types with the exception of those specifically identified in the above table.

Wages growth

The Darebin Collective Agreement No.1 applies to wage rate changes from 1 July 2007. The SRP is based on the Collective Agreement outcome of a 4.0% increase per annum until 30 June 2010 and then a 3.0% increase in the future years.

Government funding

Council receives approximately \$15 million annually in operating grants and subsidies from State and Federal sources for the purposes of funding the delivery of services to ratepayers. This includes an underlying amount of \$4.45 million for the 2009/10 year in Grants Commission funding. Based on past experience, future increases in operating grants and subsidies excluding Grants Commission funding have been set at CPI minus 0.5% throughout the SRP period. Future Grants Commission funding is forecast to remain relatively steady across the forecast period.

Statutory fees

Council raises approximately \$4 million in fees and fines each year which are imposed in line with various legislation governing local government activities such as animal registrations and parking fines. Future increases in statutory fees have been set at CPI minus 0.5% throughout the plan.

Investment return

The official cash rate at April 2009 was 3.00%, following six decreases since September 2008 each ranging between 0.25% and 1.00%. The unprecedented reduction in rates has been the Reserve Bank's response to the global economic and financial crisis. The Governor of the Reserve Bank noted in April 2009 that 'there has already been a major change in both monetary and fiscal policy in Australia Nonetheless, the Board judged that there was scope for a further modest adjustment to the cash rate. The stance of monetary policy, together with the substantial fiscal initiatives, will provide significant support to domestic demand over the period ahead'.

The earning rate of Council's investments has declined significantly from over 8.0% in August 2008 to around 4.0% in April 2009. While economic forecasts vary, it is generally expected there will be a further reduction in interest rates before reaching the bottom of the cycle. The expected investment earning rate has been set at 3.5% in 2009/10, increasing by 0.5% in the future years. These forecasts are subject to significant uncertainty in the current economic environment.

5.2 Specific operating assumptions

In developing the assumptions underlying the SRP all Service Unit Managers were consulted about future trends including any significant issues that may affect the net cost to Council of delivering services in the future. These issues were reviewed in discussion with the Financial Services branch and General Managers. Where changes in the level of revenues and expenses in a service area differ significantly from the general assumptions, these have been reflected in the SRP over the four year period. The following table summarises the increase in net costs over the four year period on a departmental basis.

	2009/10	2010/11	2011/12	2012/13
	%	%	%	%
Community Assets & Leisure	6.3	4.1	3.1	4.4
City Services	3.3	6.0	4.5	4.4
Communities & Culture	4.2	0.6	3.7	2.8
Corporate Services	2.7	4.2	4.0	5.2
Environment & Amenity	3.6	2.4	3.5	2.9
City Development	10.4	0.6	4.8	1.5

The following is a selection of some of the more significant specific operating assumptions within each department which differ from the general assumptions.

Community assets & leisure

- The higher increase in 2009/10 reflects additional transport management programs for which *grant funding has been received in the 2008/09 year.*
- Increases in building maintenance, cleaning and security services have been included in the SRP as expenditure on new and upgraded Council facilities is completed. These costs are expected to increase by \$0.33 million per annum over the four year period.
- Infrastructure planning costs are expected to increase by an additional \$0.10 million per annum in 2012/13.

City services

- Income received from utility companies engaging Council to undertake road reinstatement works is expected to decline, resulting in a reduction in net income of \$0.21 million over the four year period.
- Future rises in tipping charges and growth in the number of tenements are expected to result in an increase of \$0.97 million in the net operating costs of this service over the four year period.
- Fuel prices are expected to continue to be volatile in the short-term, although the extent of any change is difficult to predict. Given the uncertainty, the SRP assumes that fuel prices in 2009/10 will remain relatively steady and then increase in line with inflation, although actual budget forecasts will be adjusted to respond to major fuel price changes that may occur.

Communities & culture

- Demand for aged and disability services such as general home care, personal care and respite care is predicted to continue to increase due to the impacts of the ageing community in Darebin. The Council contribution included in the SRP is forecast to be around 42% of the total costs of the home support services.
- The lower numbers in the table above for 2010/11 reflect the impact of the timing of grant expenditure that is received in one year but spent in a later financial year. After removing these impacts the underlying increase in expenditure is around 4.0%.

Corporate services

- Council currently provides corporate support services to the Preston Cemetery Trust under a formal service level agreement. With a change in management arrangements for the Cemetery from 1 January 2010, the future provision of corporate services is unclear at this stage but has been forecast to impact negatively on Council's income in the later years of the plan.

- There are a number of IT systems currently being implemented including a new customer service system and asset management system. The annual license cost of maintaining Council's IT systems is expected to increase by \$0.27 million over the four year period.
- Council elections are required to be held every four years with the next election scheduled for November 2012. An allowance of \$0.42 million has been made in the 2012/13 year to cover the cost of the next elections. This is expected to be offset by fines of \$0.10 million in the same year from residents who fail to vote.

Environment & amenity

- A number of programs with fixed-term funding are scheduled to be completed in 2008/09, while additional funding of \$0.25 million for implementation of community climate change action plans initiatives has been included in the SRP.

City development

- Funding for additional resources to review and assess planning applications has been included in the 2009/10 budget. Collection of land use data information is included every second year in the future projections.

5.3 Other operating assumptions

A number of other operating assumptions have been made in the SRP in relation to revenues and expenses which cannot be directly attributed to service provision. The following is a summary of the most significant other assumptions included in the SRP.

	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000	2012/13 \$'000
Supplementary rates	400	400	400	400
Developer contributions	1,500	1,500	1,500	1,500
Grants commission	3,253	4,676	4,676	4,676
Capital grants & contributions	1,852	2,000	2,100	2,100
Asset sales	1,275	750	750	750
Insurance costs	863	893	925	957
Major maintenance	3,678	3,416	3,331	3,756

Supplementary rates

The municipality is expected to continue growing over the four year period based on current trends in property development, although at a lower rate than in prior years while the Springthorpe and Lancaster Gate developments have been undergoing active development. This is forecast to contribute an additional \$0.40 million in rate revenue throughout the outlook period. This growth will increase the City's rate base over the four year period and is reviewed regularly based on expected future planning and development in the City.

Developer contributions

Contributions are levied on developers for the purpose of defraying the future costs associated with the creation and maintenance of open space and the cost of infrastructure needs. Based on the level of property development activity within the municipality, the level of contributions is expected to be \$1.50 million per annum across the planning period.

Grants commission

Council's Grants Commission allocation has been decreasing since 2003 by around \$0.30 million per annum due mainly to a change in the allocation methodology and increases in Council's municipal property values relative to other Victorian Councils. Modelling now suggests that the allocation to Darebin should remain fairly steady over the outlook period. In 2009/10, the grant allocation is significantly lower at \$3.25 million, due to the first quarterly 2009/10 payment being made early to Council in June 2009. The underlying grant allocation in 2009/10 is \$4.45 million. The SRP has assumed a grant allocation of \$4.68 million across each of the four years.

Capital grants and contributions

Council receives government funding as well as private contributions to capital works projects. The forecast for 2009/10 includes the expected level of capital grants based on confirmed funding for the projects included in the annual capital works program. An allowance of \$2.00 million has been made for 2010/11 with a \$0.10 million escalation in the later years. This represents the typical level of grants and contributions received by the City, although the actual amounts will vary each year depending on the composition of the capital program.

Sale of assets

Council has in the past disposed of surplus assets to fund its capital needs as well as replace its existing light and heavy vehicle fleet in accordance with its plant replacement program. An amount of \$1.28 million has been forecast in 2009/10 for the expected proceeds arising from Council's plant replacement program, reducing to \$0.75 million per annum in the later years.

Insurance

Council's insurance premiums rose significantly over the four years to 2006/07, with some reductions then received in 2007/08, particularly in the public liability and asset risk premiums. The future projections are based on some stability returning to premiums and have been estimated at CPI plus 1%

Major maintenance

Included in the annual capital works program are a number of projects which are considered to be maintenance rather than capital expenditure for accounting purposes. These include tree planting, road patching and feasibility studies. An allowance of around \$3.50 million per annum has been made in later years for projects in the capital works program considered to be of an operating nature, although in practice this will vary each year depending on the composition of the capital works program. The 2009/10 year estimate of \$3.69 million includes \$0.39 million of major maintenance carried forward from the 2008/09 year.

Other items not included

There are two other items which have not been considered in the SRP as their effect cannot be reliably measured.

Firstly, every three years Council revalues its property and infrastructure assets to ensure they continue to be valued at fair value. Changes arising from asset valuations have in the past resulted in a consequent impact on the level of depreciation relating to those assets. The next such revaluation is being performed in June 2009 and while the impact on depreciation cannot be reliably measured at this time, it could impact negatively on Council's operating result.

Secondly, from time to time Council receives contributed assets from developers at no cost which are recognised as revenue in the Income Statement. This normally occurs following the completion of a property development, where the developer agrees to construct the required infrastructure including roads, footpaths and drains and then at the conclusion of the development, hands these assets over to Council. It is expected that Council will receive contributed assets during the four year period as the Springthorpe and Lancaster Gate developments are completed. While the value of assets cannot be reliably measured at this time, they could be in the order of \$1.00 million to \$2.00 million and may have a significant impact on future reported operating results.

5.4 Balance sheet assumptions

In addition to the operating assumptions there are a number of balance sheet assumptions made in the SRP which affect future levels of assets, liability and equity. The following is a summary of the most significant balance sheet assumptions included in the SRP.

	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000	2012/13 \$'000
Cash and investments	17,190	18,076	20,134	22,254
Rate arrears	2,672	2,772	2,872	2,972
Payables	10,119	10,422	10,735	11,057
Borrowings (outstanding)	5,528	4,733	3,911	3,059
Employee entitlements	14,181	14,781	15,381	15,981
Statutory reserves	3,153	2,404	2,404	2,404

Cash and Investments

Cash and investments are forecast to increase from \$17.19 million to \$22.25 million over the four year period. The increase reflects the need for Council to maintain appropriate working capital levels and includes growth to match against increasing liabilities including employee leave provisions.

Rate arrears

The level of rate arrears has been set at around 3.3% of the total rates and charges raised across the forecast period.

Payables

Accounts payable to suppliers of goods and services to Council are forecast to increase by 3.0% per annum across the four years of the plan. The actual level of payables is influenced each year by the timing of capital works expenditure.

Borrowings

Borrowings are forecast to reduce across the four years of the plan based on repayment schedules on Council's fixed term borrowings. An amount of \$2.30 million has been allowed for borrowings in 2009/10 associated with capital works projects.

Further opportunities that may arise during the four year period for investment in iconic assets where there is a sound business case and an ability to meet the loan repayments will be considered on a case-by-case basis. Where further opportunities do arise, all alternative funding sources such as grants and contributions will be explored as part of the overall funding package. Section 6.2 of the SRP contains further information on Council's approach to borrowing.

Employee entitlements

Employee entitlements (provisions for annual and long service leave) have been increased in general by the indexation impact of future Collective Agreement increases.

Reserves

The level of statutory reserves is expected to decrease in 2010/11 as Council expends funding received specifically for the Lancaster Gate Community Centre. Apart from this change, the level of reserves is expected to be maintained as transfers to reserves are assumed to be expended in the same year.

6. Key strategies

6.1 Rating strategy

The Act provides for Councils to raise income through levying rates on land and property owners. There is currently no other broad-based way for Councils to raise revenue, and rates effectively represents the balance of funds remaining to fund Council's expenditure after income from grants, user fees and other avenues have been considered. Rates and charges comprise approximately 68% of Council's total revenue and this proportion is expected to increase slightly in future years.

The annual budget process each year will determine the extent of income that is required to be raised through rates and charges. The rating process and structure allows this income to be allocated across properties in the municipality.

Three methods of valuing land are allowed under the Act – site value, net annual value and capital improved value. The significant majority of Councils (including Darebin) use capital improved value for rating valuation purposes.

A number of rating options are available for Councils to use which gives some flexibility in how the total amount of rates is allocated. These methods are listed below, together with details of Council's current rating structure which has remained largely unchanged over the last decade:

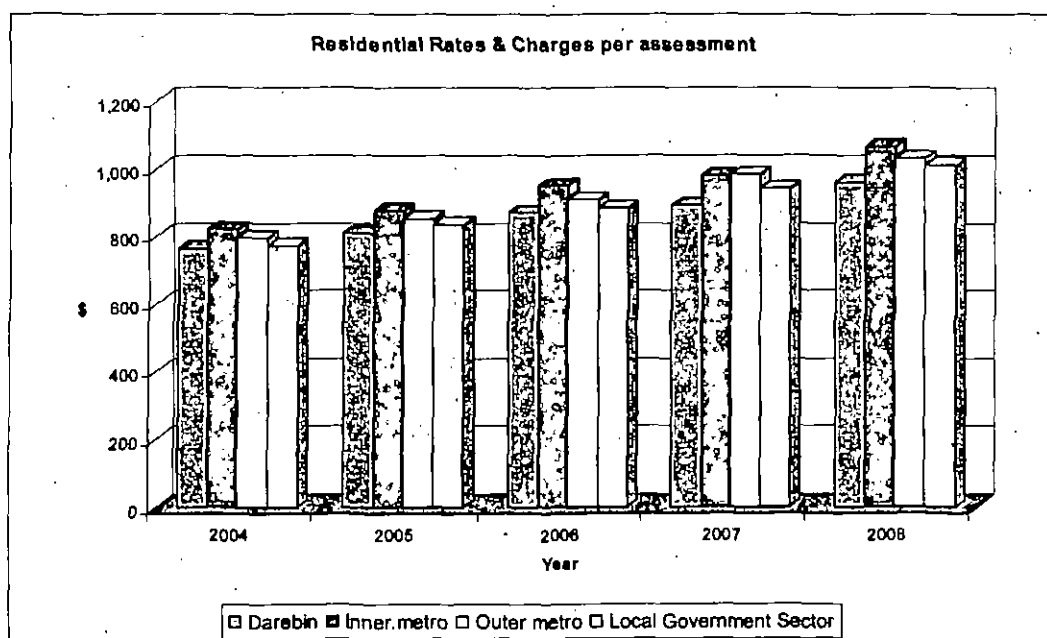
Rating option	Description	Current Darebin structure
General rate	A general rate is applied to all properties and can be set as either a uniform rate or a number of differential rates.	Darebin applies three differential rates.
Uniform rate	A uniform rate is a single rate in the dollar that is applied to the value of all properties in the municipality.	Darebin does not apply a uniform rate.
Differential rates	Differential rates are different rates in the dollar that are applied to different classes of properties and are permitted if the Council uses Capital Improved Value as the rating valuation base. The Act allows the use of differential rates if the Council considers that this will contribute to the equitable and efficient carrying out of its functions.	The following differential rates are currently in place: <ul style="list-style-type: none"> • Residential • Business (set at 175% of the residential rate) • Recreational (set at 50% of the business rate)
Municipal charge	A municipal charge to cover some of the administrative costs of the Council. This is a flat-rate charge applied to all properties.	Darebin does not levy a municipal charge.
Service rates and charges	Service rates or annual service charges (or a combination of both) can be levied for provision of a water supply, collection and disposal or waste, and sewerage services.	Darebin levies a service charge for residents who elect to use the optional green waste service, with a discount for pensioners.
Rebates and concessions	The Act allows Councils to grant a rebate or concession in relation to any rate or charge to assist the proper development of all or part of the municipal district, preserve buildings or places that are of historical or environmental interest, or to restore or maintain buildings or places of historical, environmental, architectural or scientific importance.	A rate rebate for pensioners of \$50 is being introduced in the 2009/10 rating year to each owner of rateable land who is an "eligible recipient" within the meaning of the State Concessions Act 1986.

Rating structure review

Council has commenced a comprehensive review of Darebin's rating system which will specifically look at possible rate differential options that can increase the efficiency and equity of the current rating system. This review will also consider the other rating options that are outlined in the above table and is part of this Council's commitment to equity throughout the City. This review is expected to be completed during 2009/10 with application of any changes from the 2010/11 year.

Rating levels

Residential rating levels in Darebin overall are 8.3% lower than the averages for Victorian metropolitan Councils and 5.1% lower than the overall sector. The below chart is based on the most recent data published by Local Government Victoria and shows average rates per residential assessment for the 2004 to 2008 years.



In order to meet the objectives set out in this SRP, Council needs to raise sufficient income to:

- Maintain the scope and standard of ongoing services and allow flexibility to respond to changing community needs
- Increase the amount of expenditure allocated to asset renewal projects included in Council's capital works program
- Ensure the cost of services and capital works commitments are covered without relying on external non-recurrent income sources such as capital grants
- Ensure sufficient cash levels are maintained to meet short-term payment obligations.

Council's ongoing cost increases average approximately 5% per annum. This level is linked to wage increases set under relevant industrial agreements, contract price increases, specific increases in various areas which particularly impact on local government (refer section 5.2), and reduced income from other sources. This level is consistent with local government cost indices published by the Municipal Associate of Victoria. The detailed budget process undertaken by Council each year ensures that operational efficiencies and increases in other income sources are achieved where possible in order to minimise the impact on rates.

After consideration of the different factors, and to ensure the above objectives are achieved, a rate increase of 5% has been set for the 2009/10 year. A rate rebate of \$50 for eligible pensioner ratepayers has also been included in the 2009/10 budget. For the purposes of future planning, rate increases of 5% have also been included in the future years of the SRP, however it is noted that these figures are indicative only and may change in the future to reflect changes in circumstances or assumptions that cannot currently be predicted.

6.2 Borrowing strategy

Council has a relatively low level of external borrowings with \$3.9 million outstanding in June 2009. This equates to 5% of total rate revenue, and compares with an average borrowing rate of 20% of rates for metropolitan Councils in Victoria.

Council has determined that borrowings will be considered as a means of funding strategic infrastructure initiatives with reference to criteria including funding of projects which are:

- iconic in nature
- of a size that could not otherwise be funded through the annual capital works program
- based on a sound business case including consideration of the following factors:
 - the purposes for which the borrowings are being sought including the level of demonstrated community need for the project and the expected life of the infrastructure
 - reasons why the project cannot be funded through normal operational income
 - a clear statement of how the repayments will be funded and the impact on funding otherwise available for recurrent services or capital works
 - any financial return to Council which can be used to meet the loan repayments

Borrowings may also be required in the future as a means of securing a fixed rate of payment for other liabilities Council may face, for example, should there be a future requirement to contribute additional amounts to the defined benefit superannuation fund.

Any future borrowings will be considered carefully in accordance with sound financial management principles and the ability of Council to meet the relevant prudential requirements for borrowing set out by State Government.

The relevant State Government prudential requirements for borrowing are set out below, together with Council's actual position at June 2009 and internal limits that Council applies to its own borrowing considerations:

Prudential ratio	Calculation	Rationale	State Govt Limit	Darebin – June 2009	Darebin – Internal limits
Liquidity (working capital)	Current Assets Current Liabilities	Reflects ability to repay current commitments from cash or near cash assets	> 1.1 : 1	1.24 : 1	>1.1 : 1*
Debt commitment	Total loans as a percentage of rate revenue	Reflects total loan levels relative to Council rates	<60%	5.3%	<30%
Debt servicing	Total interest costs as a percentage of total revenue	Reflects the proportion of total revenue that is used to service loan interest	<5%	0.4%	<2%

* Working capital may reduce to a lower amount upon borrowing if financial projections provide for an increase to 1.1 within five years of the borrowings taking place

The following table summarises Council's current and future proposed borrowings and repayments for the next four years.

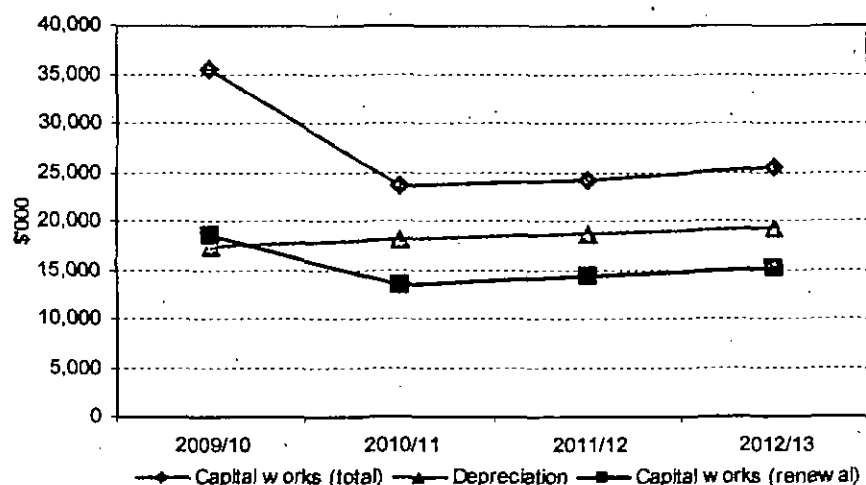
Year	New Borrowings \$'000	Loan Principal Payable \$'000	Loan Interest Payable \$'000	Balance 30 June \$'000
2009	2,300	689	357	5,528
2010	0	795	344	4,733
2011	0	822	290	3,911
2012	0	852	235	3,059

6.3 Infrastructure strategy

Council is developing a more detailed understanding of its future infrastructure requirements based on the knowledge provided by various Asset Management Plans, which sets out future capital expenditure requirements of the Council by class of asset. Asset management plans predict infrastructure consumption, renewal needs and consider infrastructure needs to meet future community service expectations. The key aspects of Council's approach to infrastructure management are:

- A long term capital planning process which integrates with the Council Plan, Strategic Resource Plan and Annual Budget processes;
- Identification of capital projects through the preparation of asset management plans;
- Prioritisation of capital projects within classes on the basis of evaluation criteria;
- Methodology for allocating annual funding to classes of capital projects; and
- Business Case template for officers to document capital project submissions.

A key objective set out in the Strategic Resource Plan is to continue to focus on renewing community assets such as roads, footpaths, open space and buildings to ensure they are maintained at an appropriate standard to meet required service levels. This is measured by the amount of expenditure allocated to asset renewal projects included in Council's capital works program across the plan period.



Council has demands for capital expenditure for both new assets and renewal of existing assets. The above graph indicates that total funding available for capital works exceeds depreciation in each of the four years. Capital works in the 2009/10 year is inflated due to the impact of projects not completed and carried forward from 2008/09. In terms of expenditure specifically on renewal works, expenditure will exceed depreciation in 2009/10 by \$1.19 million or 107%. This is mainly due to expenditure attributable to the Lancaster Gate and Preston City Oval works. The future amounts allocated increase each year, but remain below depreciation with the underlying renewal expenditure compared with depreciation expected to increase from 74% in 2010/11 to 79% in 2012/13. The difference between the level of renewal expenditure and depreciation represents the asset renewal gap and contributes to the level of backlog. This gap is being addressed in future strategies including the use of asset management plans to identify an improved measure of required renewal spending to replace the relatively simple measure of depreciation.

The following table summarises Council's proposed capital works programs including funding sources for the next four years. This includes both capitalised and major maintenance projects.

Year	Total Capital Program \$'000	Grants & Contribs \$'000	Sale of Assets \$'000	Loan Borrowings \$'000	Investment Reserves \$'000	Unrestricted Cash & Inv \$'000	Council Operations \$'000
2009	35,478	5,137	1,275	2,300	1,850	3,746	21,170
2010	23,615	2,000	750	0	2,250	0	18,615
2011	24,124	2,100	750	0	1,500	0	19,774
2012	25,403	2,100	750	0	1,500	0	21,053

7. Outcomes

7.1 Financial outcomes

The SRP supports Council achieving its goals within a framework of financial sustainability. Financial sustainability in the longer term means that planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

The key objectives set out in this SRP and the measures used to reflect these objectives are included below, together with the outcomes for each objective.

Service levels

Objective

We will maintain the scope and standard of ongoing services provided to the Darebin community and be flexible to address changing community needs with innovative services and facilities.

Measure

Allowance for continuity of services included within the annual budgets throughout the plan period.

Outcome

Funding for the maintenance of service levels throughout the four-year period has been included in the SRP. Annual service plans are prepared for each Council service area which set out the activities and initiatives that will be undertaken each year in support of the goals outlined in the Council Plan.

Asset renewal

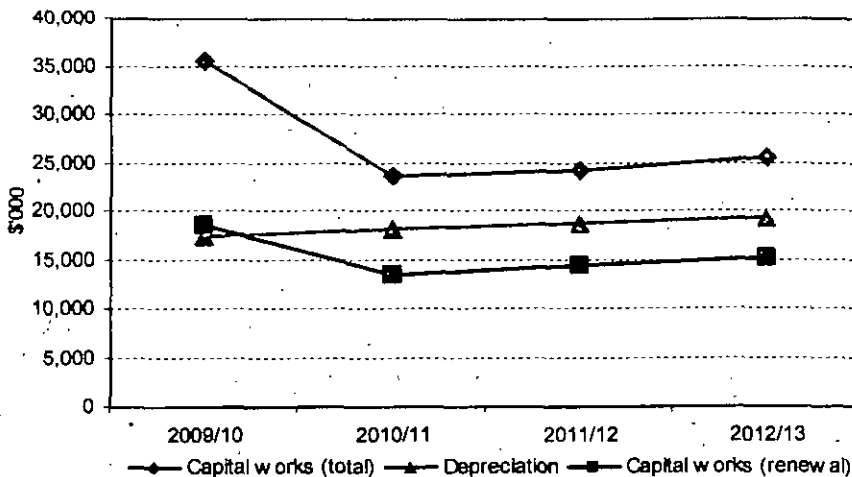
Objective

We will continue to focus on renewing our infrastructure such as roads, footpaths, open space and buildings to ensure these community assets are maintained at an appropriate standard to meet required service levels.

Measure

Increase in the amount of capital expenditure allocated to asset renewal projects in Council's capital works program, expressed as a percentage of the amount required to maintain the assets, as measured by depreciation.

Outcome



The capital works program over the four year period totals \$108.62 million at an average of \$27.16 million per annum. The graph above sets out asset depreciation, which provides some indication of the required spending on the renewal of assets, together with the forecast capital works and the renewal expenditure over the life of the current SRP. The above graph indicates that the proportion of renewal expenditure is increasing across the plan period. Capital works and renewal expenditure are higher in 2009/10 due to the impact of capital works carried forward from the previous financial year and the \$5.25 million Lancaster Gate Community Centre development which includes a significant renewal component.

Operating performance

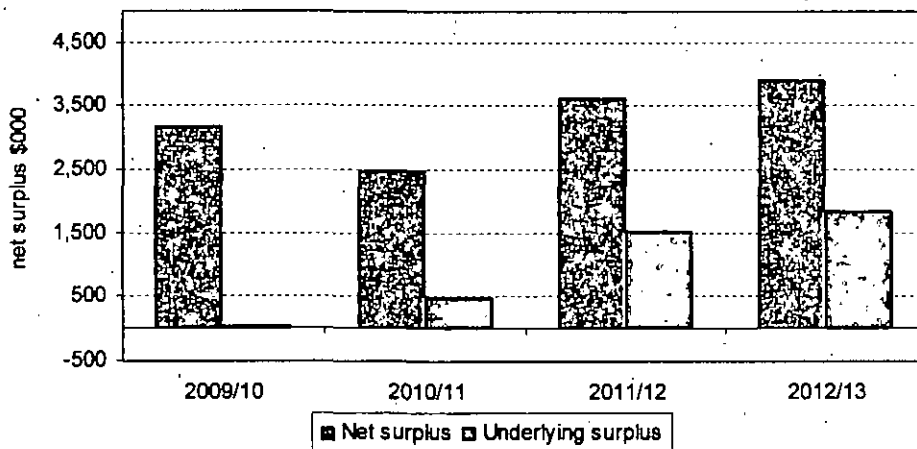
Objective

We will ensure that Council generates sufficient ongoing income to fund its services and capital works commitments over the longer term.

Measure

Achieve an underlying operating surplus throughout the term of the SRP. The underlying surplus is measured after adjusting for capital grants and contributions that are not necessarily ongoing funding sources and timing differences on grants for provision of services.

Outcome



The SRP forecasts that Council will achieve an underlying operating surplus of \$0.03 million in 2009/10 and growing to \$1.83 million in 2012/13. The underlying surplus is calculated by excluding the impact of capital grants and contributions and timing differences on operating grants.

Cash and liquidity

Objective

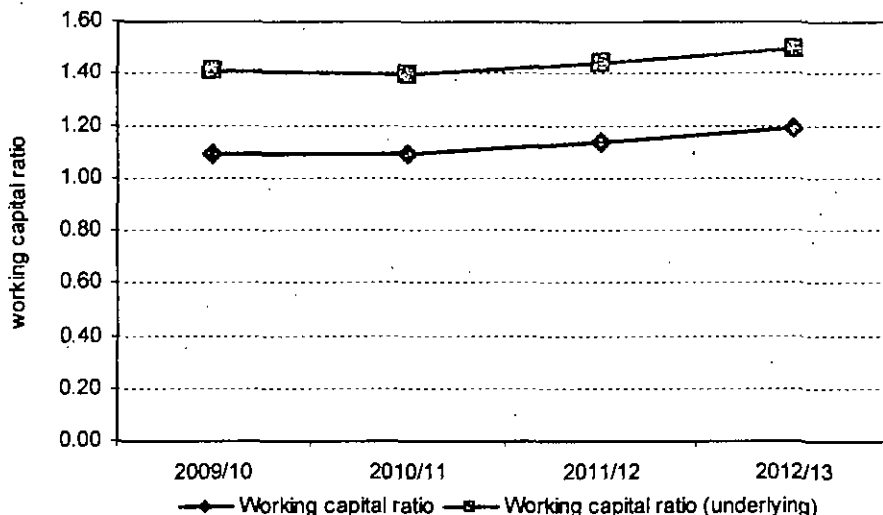
We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.

Measure

Achieve a working capital ratio of at least 1.05 : 1 in 2009/10 and 2010/11, increasing to at least 1.1 : 1 in the later years of the plan

Outcome

Cash and investments are forecast to increase from \$17.19 million to \$22.25 million over the four year period. The increase reflects the need for Council to maintain appropriate working capital levels and includes growth to match against increasing liabilities including employee leave provisions.



The working capital ratio reflects the difference between the current assets and current liabilities on Council's balance sheet, expressed as a ratio. Council's working capital ratio is forecast to be 1.09, increasing to 1.19 in 2012/13.

The underlying working capital ratio makes an adjustment to the level of current liabilities to reflect the amount of long service leave payments expected to be made in the following 12 month period rather than long service leave to which staff are presently entitled. The underlying ratio is forecast to increase from 1.41 in 2009/10 to 1.50 in 2012/13.

Summary of financial outcomes

Based on the assumptions as set out in Section 5 and strategies in Section 6, each of the financial objectives which underpin the SRP have been achieved over the four year period. However, it must be noted that any significant adverse change in the key assumptions, could result in the non-achievement of some or all of the financial objectives and accordingly the financial outcomes must be considered in light of these assumptions. The SRP will be reviewed and updated each year.

7.2 Human resource outcomes

In addition to the financial resources to be consumed over the planning period, Council will also utilise non-financial resources, in particular human resources. The following table summaries the non-financial resources for the next four years. Appendix B "Non-financial Resources" includes a more detailed analysis of the human resources to be used over the four year period.

Indicator	Budget 2009/10	Budget 2010/11	Budget 2011/12	Budget 2012/13
Employee costs (\$'000)	57,506	59,663	61,496	63,435
Employee numbers (EFTs)	731	731	731	731

On the basis of continuing to provide the same level of service to the community, the level of human resources as measured in Equivalent Full Time (EFT) personnel has been assumed to remain constant over the four year period with employee costs increasing in line with wage indexation assumptions. Issues which may impact on Council's ability to maintain its current resource level are labour market constraints in highly specialised areas such as traffic engineering and areas where demand is high such as urban planning, although the current economic conditions have resulted in greater availability of labour at the present time. Council also has an ageing workforce, particularly in areas with high levels of manual labor which may also impact on its ability to maintain adequate service levels in these areas.

APPENDIX A
Financial resources



CITY OF DAREBIN
Budgeted Standard Income Statement
 For the four years ending 30 June 2013

	Forecast Actual 2008/09 \$'000	Budget 2009/10 \$'000	Budget 2010/11 \$'000	Budget 2011/12 \$'000	Budget 2012/13 \$'000
Revenues from ordinary activities					
Rates and charges	74,155	78,067	82,483	87,154	92,022
User fees	9,713	9,775	9,989	10,221	10,399
Statutory fees and fines	4,081	4,012	4,071	4,153	4,342
Contributions	1,699	1,500	1,500	1,500	1,500
Operating grants and contributions	16,489	13,731	14,912	14,913	15,195
Capital grants and contributions	9,717	5,137	2,000	2,100	2,100
Other	4,531	3,453	3,221	3,321	3,374
Total revenues	120,385	115,675	118,176	123,362	128,932
Expenses from ordinary activities					
Employee benefits	54,246	57,506	59,663	61,496	63,435
Materials and services	30,530	30,243	30,689	32,213	34,836
Bad and doubtful debts	668	688	709	730	752
Finance costs	274	357	344	290	235
Depreciation and amortisation	16,588	17,269	18,037	18,671	19,313
Other	7,711	7,187	6,800	6,884	6,996
Total expenses	110,017	113,250	116,242	120,284	125,567
Net gain on disposal of property, infrastructure, plant and equipment	625	768	559	559	559
Surplus for the year	10,993	3,193	2,493	3,637	3,924

City of Darebin

CITY OF DAREBIN
Budgeted Standard Balance Sheet
 For the four years ending 30 June 2013

	Forecast Actual 2009 \$'000	Budget 2010 \$'000	Budget 2011 \$'000	Budget 2012 \$'000	Budget 2013 \$'000
Current assets					
Cash and cash equivalents	25,357	17,190	18,077	20,134	22,254
Trade and other receivables	7,842	7,998	8,154	8,310	8,467
Other financial assets	71	71	71	71	71
Total current assets	33,270	25,259	26,302	28,515	30,792
Non-current assets					
Trade and other receivables	478	397	310	216	115
Property, infrastructure, plant & equipment	786,488	800,170	801,806	803,404	805,212
Investment property	3,027	3,027	3,027	3,027	3,027
Intangibles	598	598	598	598	598
Other financial assets	206	206	206	206	206
Total non-current assets	790,797	804,398	805,947	807,451	809,158
Total assets	824,067	829,657	832,249	835,966	839,950
Current liabilities					
Trade and other payables	9,824	10,119	10,422	10,735	11,057
Interest-bearing loans and borrowings	607	795	822	852	683
Provisions	11,802	12,292	12,882	13,472	14,062
Total current liabilities	22,233	23,206	24,126	25,059	25,802
Non-current liabilities					
Interest-bearing loans and borrowings	3,311	4,733	3,911	3,059	2,376
Provisions	1,931	1,931	1,931	1,931	1,931
Total non-current liabilities	5,242	6,664	5,842	4,990	4,307
Total liabilities	27,475	29,870	29,968	30,049	30,109
Net assets	796,592	799,787	802,281	805,917	809,841
Equity					
Accumulated surplus	446,057	449,602	452,846	456,482	460,406
Asset revaluation reserve	347,032	347,032	347,032	347,032	347,032
Other reserves	3,503	3,153	2,403	2,403	2,403
Total equity	796,592	799,787	802,281	805,917	809,841

CITY OF DAREBIN
Budgeted Standard Cash Flow Statement
 For the four years ending 30 June 2013

	Forecast Actual 2008/09 \$'000	Budget 2009/10 \$'000	Budget 2010/11 \$'000	Budget 2011/12 \$'000	Budget 2012/13 \$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities					
Receipts from customers	92,706	95,792	100,214	105,248	110,504
Payments to suppliers and employees	(91,231)	(94,838)	(96,967)	(100,418)	(105,106)
	1,475	954	3,247	4,830	5,398
Interest received	1,436	865	900	949	982
Government receipts	26,206	18,868	16,912	17,013	17,295
Net cash inflow from operating activities	29,117	20,687	21,059	22,792	23,675
Cash flows from investing activities					
Proceeds from sale of prop, plant & equip	1,570	1,609	1,084	1,084	1,084
Repayment of loans and advances	70	76	81	87	94
Payments for property, plant & equipment	(24,980)	(31,793)	(20,198)	(20,794)	(21,646)
Net cash outflow from investing activities	(23,340)	(30,108)	(19,033)	(19,623)	(20,468)
Cash flows from financing activities					
Finance costs	(293)	(357)	(344)	(290)	(235)
Trust funds and deposits	(141)	0	0	0	0
Proceeds from borrowings	0	2,300	0	0	0
Repayment of borrowings	(593)	(689)	(795)	(822)	(852)
Net cash inflow (outflow) from financing activities	(1,027)	1,254	(1,139)	(1,112)	(1,087)
Net increase (decrease) in cash & cash equivalents	4,750	(8,167)	887	2,057	2,120
Cash & cash equivalents at beg of year	20,607	25,357	17,190	18,077	20,134
Cash & cash equivalents at end of year	25,357	17,190	18,077	20,134	22,254

CITY OF DAREBIN
Budgeted Standard Capital Works Statement
 For the four years ending 30 June 2013

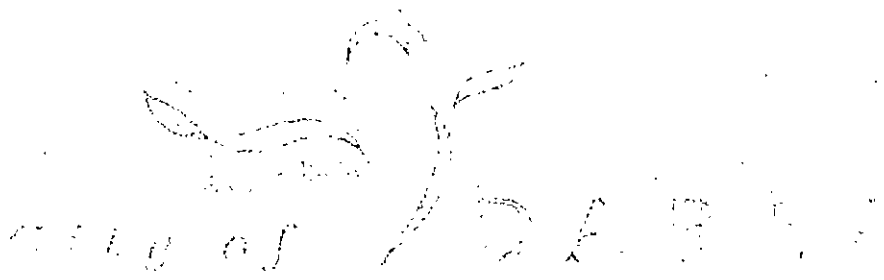
	Forecast Actual 2008/09 \$'000	Budget 2009/10 \$'000	Budget 2010/11 \$'000	Budget 2011/12 \$'000	Budget 2012/13 \$'000
Capital works areas					
Roads	8,866	8,607	7,852	8,016	8,495
Drains	596	1,201	500	500	500
Open space	3,868	4,527	2,983	3,114	3,314
Buildings	8,708	13,474	6,031	5,971	6,371
Plant, equipment & other	6,390	7,167	5,908	6,167	6,367
Feasibility studies	353	502	341	356	356
Total capital works	28,781	35,478	23,615	24,124	25,403
Represented by:					
Asset renewal	13,962	18,462	13,424	14,275	15,154
New assets	6,229	7,923	4,158	3,182	3,285
Asset expansion / upgrade	4,787	5,407	2,617	3,336	3,208
Capital expenditure	24,978	31,792	20,199	20,793	21,647
Operating expenditure ¹	3,803	3,686	3,416	3,331	3,756
Total capital works	28,781	35,478	23,615	24,124	25,403
New works	28,781	31,732	23,615	24,124	25,403
Carry-forward works	0	3,746	0	0	0
Total capital works	28,781	35,478	23,615	24,124	25,403

¹ These items are expensed in the Operating Statement as they do not meet the definition of capital expenditure.

City of DAREBIN

APPENDIX B

Human resources



CITY OF DAREBIN
Budgeted Statement of Human Resources
 For the four years ending 30 June 2013

	Budget 2009/10	Budget 2010/11	Budget 2011/12	Budget 2012/13
Employee costs (\$'000)				
City Development	3,436	3,526	3,650	3,759
Environment & Amenity	4,557	4,628	4,790	4,934
City Services	11,755	12,064	12,486	12,860
Community Assets & Leisure	6,082	6,247	6,465	6,659
Communities & Culture	21,941	22,727	23,270	24,049
Corporate Services	9,545	9,882	10,223	10,546
Other non-attributable	189	589	609	627
Total employee costs (\$'000)	57,506	59,662	61,494	63,435
Employee numbers (EFT)				
Total employee numbers (EFT)	731	731	731	731

