DAREBIN CITY COUNCIL
Strategic Resource Plan
2010-2014

City of DAREBIN

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. With this framework in mind, in June 2009 Council developed and adopted a SRP for 2009-13 in conjunction with the preparations of the Council Plan, covering the period of the current Council's elected term. In accordance with the Local Government Act 1989, the SRP is reviewed and updated each year and now covers the four year period 2010-2014.

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.

Contents

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.

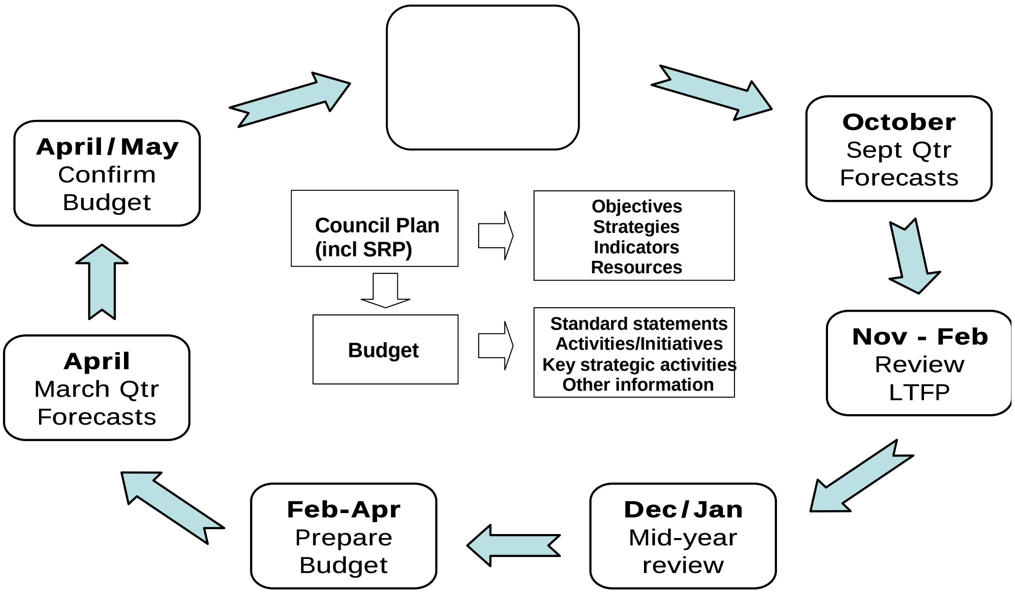
In preparing the SRP, Council has also been mindful of the need to comply with the following Principles of Sound Financial Management as contained in the Act:

- 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.

With the current Darebin Council elected until November 2012, the last year of this SRP runs beyond the Council term. Existing Council strategies have been applied in developing this SRP, although the future strategic objectives and associated financial resources will ultimately be the decision of the new Darebin Council.

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**
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.	Allowance for continuity of services included within the annual budgets throughout the plan period.
Asset renewal 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.	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.
Operating performance We will ensure that Council generates sufficient ongoing income to fund its services and capital works commitments over the longer term.	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.
Cash and liquidity We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.	Achieve a working capital ratio of at least 1.1 : 1 through out the plan.

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 2009.
- 2010/11 Annual Budget and updated forecasts for 2010/11 prepared during April 2010.
- 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 Directors.
- 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 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	Budget 2009/10 $000s	Forecast 2009/10 $000s	Variance $000s
Net surplus/(deficit)	3,193	6,303	3,110
Underlying surplus/(deficit)	33	2,206	2,172
Cash and investments	17,190	29,056	11,866
Working capital ratio	1.09	1.62	0.54
Underlying working capital ratio	1.41	2.09	0.68
Capital works	35,478	25,991	(9,487)
Capital works (renewal)	18,462	14,230	(4,232)
Borrowings outstanding	5,528	3,311	(2,217)

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 $6.30 million in 2009/10, compared with an original budgeted net surplus of $3.19 million. The better than budgeted result is due mainly to additional revenue from developer and public open space contributions of $1.38 million, Lancaster Gate site gifted to Darebin by VicUrban of $0.70 million and higher than budgeted interest revenue of $0.78 million.

After removing the impact of capital grants and timing differences relating to the receipt and expenditure of grants, an underlying surplus of $2.20 million is expected in 2009/10 compared with a budgeted underlying surplus of $0.03 million.

Cash and liquidity

Council is expected to hold $29.06 million in cash and investments at 30 June 2010 compared with an original budget of $17.19 million. The better than expected cash position is due mainly to expenditure on capital works which will be incomplete at the end of the 2009/10 year and will be carried forward for completion in 2010/11.

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 1.62 at 30 June 2010, 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 2009/10 is expected to be $25.99 million compared with an original budget of $35.48 million. $14.23 million of the total forecast expenditure relates to the renewal of existing capital infrastructure.

Borrowings

Loan borrowings outstanding at 30 June 2010 are forecast to total $3.31 million. This is lower than the original budget as borrowing of $2.30 million budgeted in the 2009/10 year did not proceed. This amount equates to 4.2% 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 18% 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.

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
Consumer price index	**2.5**	2.5	2.5	2.5
Wages growth	**3.0**	3.0	3.0	4.0
Rates growth	**4.5**	5.0	5.0	5.0
Government funding	**2.5**	2.0	2.0	2.0
Statutory fees	**2.5**	2.0	2.0	2.0
Investment return	**6.0**	6.0	6.0	6.0

Consumer price index (CPI)

The annual inflation rate advised by the Australian Bureau of Statistics for the March 2010 quarter for Melbourne was 2.9 % (December 2009 was 2.1%). The Victorian State Government Budget Papers for 2010/11 estimate CPI as 2.25% p.a. and 2.5% for the final three 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 SRP assumes base wage growth of 3.0% per annum, being slightly above CPI.

Rates growth

For the purposes of future planning, rate increases of 5% have been included in the future years of the SRP, however it is noted that these figures may change in the future to reflect changes in circumstances or assumptions that cannot currently be predicted.

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 $4.28 million estimated for the 2010/11 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 steady across the forecast period.

Statutory fees

Council raises approximately $4 million in fees and fines each year which are charged 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 2010 was 4.50%, following six increases since April 2009 where the rate was 3.00%. The Governor of the Reserve Bank noted in April 2010 that '..with the risk of serious economic contraction in Australia having passed some time ago, the Board has been adjusting the cash rate towards levels that would be consistent with interest rates to borrowers being close to the average experience over the past decade or more……this represents a significant adjustment from the very expansionary settings reached a year ago'.

The earning rate of Council's investments has increased from around 4.0% in April 2009 to around 6.0% in April 2010. While economic forecasts vary, it is generally expected that interest rates will remain relatively stable. The expected investment earning rate has been set at 6.0% in 2010/11, and 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 Directors. 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.

	Budget	Strategic Resource Plan Projections		
	2010/11	2011/12	2012/13	2013/14
	%	%	%	%
Infrastructure	9.2	3.7	3.7	4.3
Communities & Culture	2.4	(0.3)	5.4	4.6
Corporate Services	7.9	3.8	4.7	1.7
Environmental Sustainability	5.3	1.4	0.9	(0.1)
Development & Amenity	(4.5)	4.8	1.7	5.5

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

Infrastructure

- The higher increase in 2010/11 reflects the Victorian State Government's recently announced increase in tipping charges for general waste disposal to land fill from $9 a tonne to $30 a tonne from the 1 July 2010 and additional expenditure for the pruning of trees around power lines.
- 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.
- Future rises in tipping charges and growth in the number of tenements are expected to result in an increase of $1.30 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 2010/11 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 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 2011/12 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 3.0%.

Corporate Services

- The higher increases in 2010/11 reflects new initiatives relating to Council's community engagement with a focus on culturally and linguistically diverse communities ($0.26 million).

- 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 $0.133 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 $0.41 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.
- Property valuations for rating purposes are completed bi-annually, with the next valuations to be undertaken in the 2011/12 year. Council engages an external contractor to undertake the valuation of business properties with a cost to Council of $0.08 million.

Environmental Sustainability

- Only a small increase in expenditure is forecast for 20012/13 and 2013/14 as it is anticipated that funding will be provided in 2011/12 to replace street lighting globes with energy efficient globes. These energy efficient globes will reduce electricity costs by $0.08 million p.a. or $0.12 million over the final 2 years of the SRP.

Development & Amenity

- The 2010/11 budget includes funding for enhanced traffic enforcement, budgeted to contribute net revenue of $0.26 million. After removing the impact of this revenue, the underlying increase in expenditure is 1.0%.
- 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.

	Budget	Strategic Resource Plan Projections		
	2010/11	2011/12	2012/13	2013/14
	$000s	$000s	$000s	$000s
Supplementary rates	500	400	400	400
Developer contributions	2000	2000	2000	2000
Grants Commission	4,288	4,188	4,088	4,088
Capital Grants & Contributions	7,111	1,243	1,054	948
Asset Sales	932	900	1,197	906
Insurance costs	912	950	989	1,032
Major Maintenance	5,129	3,745	3,451	3,236

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 $0.50 in 2010/11 reducing to $0.40 million beyond. 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 $2.00 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. The SRP has assumed Darebin's grant allocation will continue to decrease in the first two years of the SRP, but remain fairly steady over the final two years of the outlook period.

Capital grants and contributions
Council's receives government funding as well as private contributions to capital works projects. The forecast for 2010/11 includes the expected level of capital grants based on confirmed funding for the projects included in the annual capital works program. 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 $0.93 million has been forecast in 2010/11 for the expected proceeds arising from Council's plant replacement program, and remaining fairly steady over the outlook period.

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 relative stability 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 2010/11 year estimate of $5.12 million includes $0.50 million of major maintenance carried forward from the 2009/10 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 2012 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.

	Budget	Strategic Resource Plan Projections		
	2010/11	2011/12	2012/13	2013/14
	$000s	$000s	$000s	$000s
Cash and investments	20,227	19,274	19,429	22,348
Rate arrears	3,115	3,215	3,315	3,415
Payables	11,123	11,436	11,758	12,090
Borrowings (outstanding)	2,689	2,052	1,398	926
Employee entitlements	14,928	15,528	16,128	16,728
Statutory reserves	4,136	3,136	3,136	3,136

Cash and investments

Cash and investments are forecast to increase from $20.22 million to $22.34 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.

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 and other expected increases.

Reserves

The level of statutory reserves is expected to decrease in 2011/12 as Council expends the additional developer contributions received in 2009/10. 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 the differential rates listed below.
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 proposed for 2010/11: • Residential • Business (set at 175% of the residential rate) • Recreational (set at 50% of the business rate) • Residential vacant land (set at 150% of the residential rate) • Business vacant land (set at 150% 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 provided in the 2010/11 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

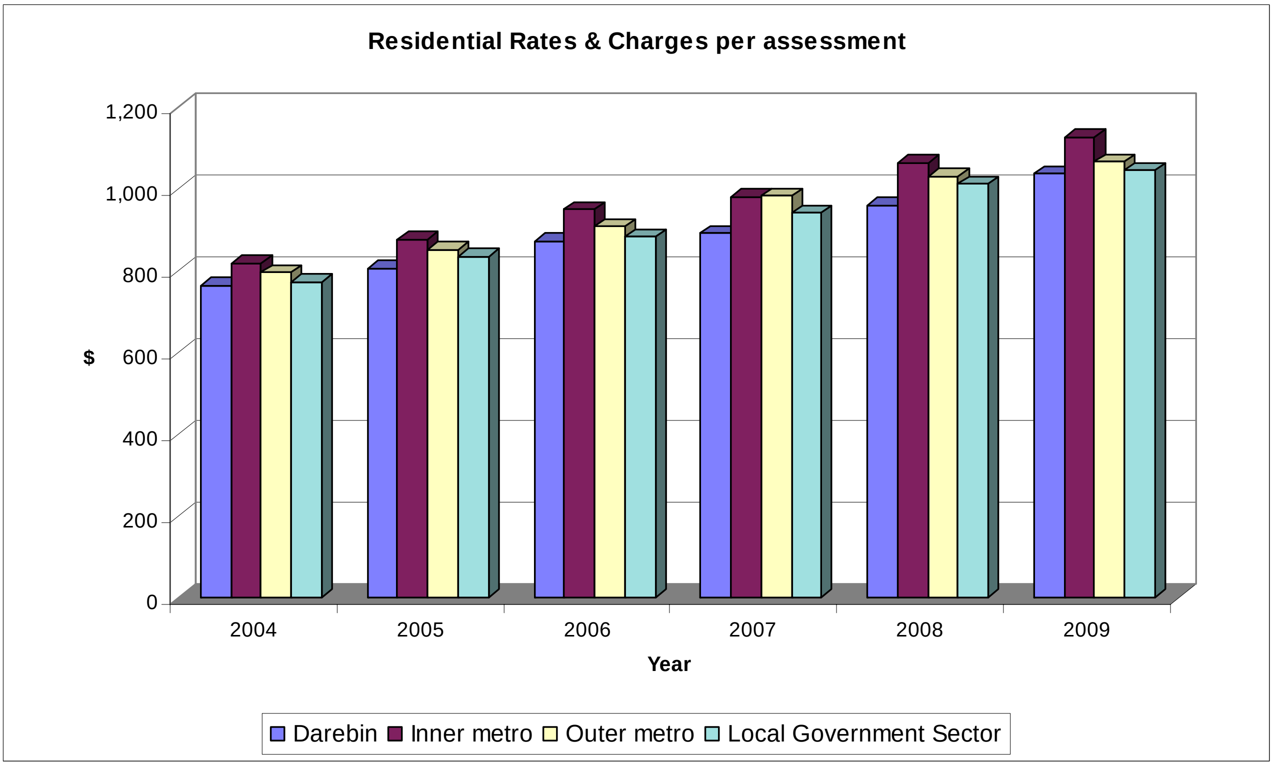
Council has commenced a comprehensive review of Darebin's rating system which has been considering possible rate differential options that can increase the efficiency and equity of the current rating system. This review is also exploring the other rating options that are outlined in the previous table and is part of this Council's commitment to equity throughout the City.

As an outcome of the review for the 2010/11 year, Council is proposing to introduce differential rates on vacant residential and business properties. These rates have been set at 1.5 times the rates for non-vacant residential and business properties respectively. Council considers the differential rates will contribute to the equitable and efficient performance of its functions. Further information on these rates is included in Appendix B.

Council will conclude its rating review during 2010/11, with application of any further changes to be implemented in the 2011/12 rating year.

Rating levels

Residential rating levels in Darebin overall are 8% lower than the averages for Victorian inner metropolitan Councils and also 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 2009 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 minimise the impact on rates.

After consideration of the different factors, and to ensure the above objectives are achieved, a rate increase of 4.5% has been set for the 2010/11 year. A rate rebate to pensioner ratepayers of $50, in addition to the rebate provided by the State Government, will continue to be offered in 2010/11. 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 $3.31 million outstanding in June 2010. This equates to 4.2% of total rate revenue, and compares with an average borrowing rate of 17.9% 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 2010 and internal limits that Council applies to its own borrowing considerations:

Prudential ratio	Calculation	Rationale	State Govt Limit	Darebin – June 2010	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	1.62 : 1	>1.1 : 1*
Debt commitment	Total loans as a percentage of rate revenue	Reflects total loan levels relative to Council rates	<60%	4.2%	<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%	0.2%	<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.

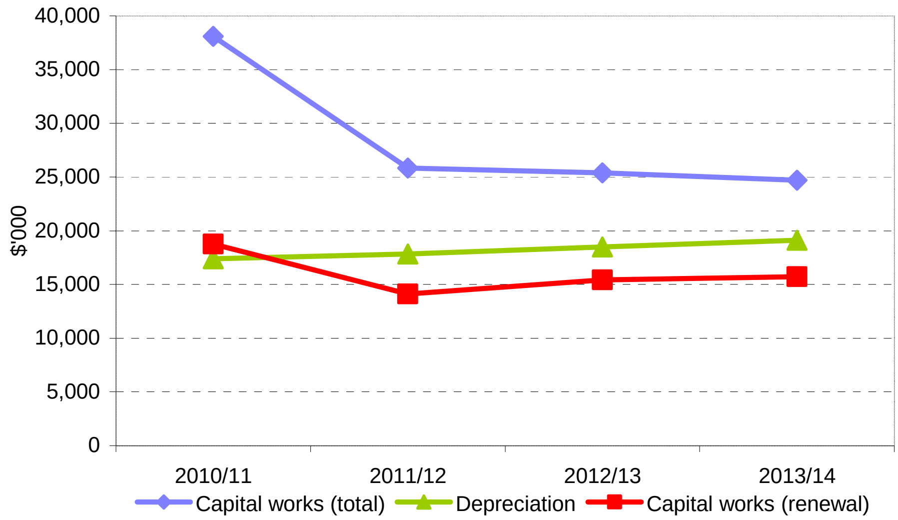
Year	New borrowings	Loan Principal repay	Loan Interest Payable	Balance 30 June
	$000s	$000s	$000s	$000s
2011	0	622	203	2,689
2012	0	637	161	2,052
2013	0	654	118	1,398
2014	0	472	77	926

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 2010/11 year is inflated due to the impact of projects not completed and carried forward from 2009/10. In terms of expenditure specifically on renewal works, expenditure will exceed depreciation in 2010/11 by $0.93 million or 105%. 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 79% in 2011/12 to 82% in 2013/14. 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	Grants & Contribs	Sale of assets	Loan Borrowings	Investment Reserves	Unrestricted Cash & Inv	Operations
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2011	**38,081**	**6,991**	**932**	**0**	**2,690**	**7,604**	**19,865**
2012	25,842	1,243	900	0	3,000	0	20,699
2013	25,379	1,054	1,197	0	2,000	0	21,128
2014	24,691	948	906	0	2,000	0	20,837

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

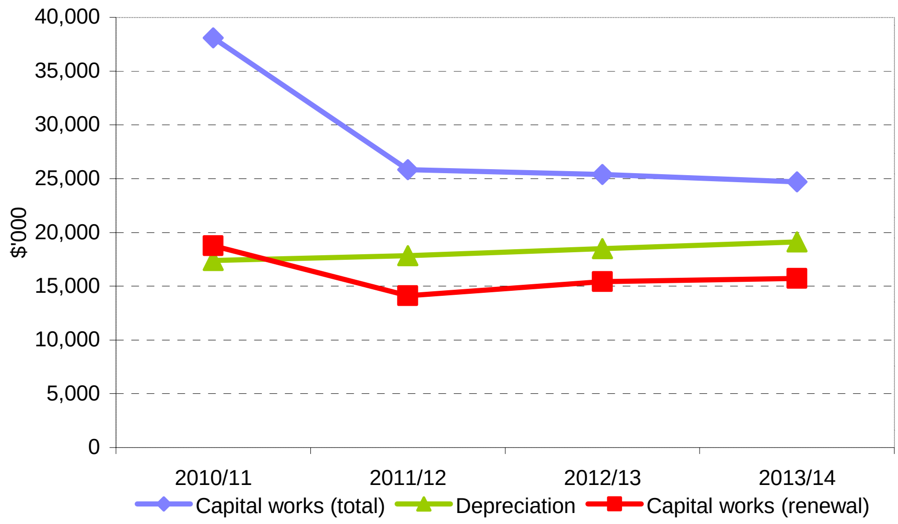
Objective

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 $114.08 million at an average of $28.52 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 2010/11 due to the impact of capital works carried forward from the previous financial year.

Operating performance

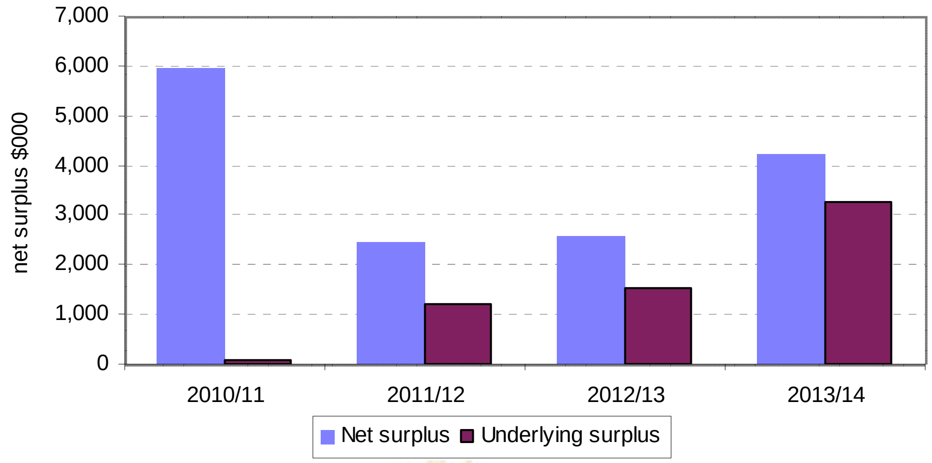
Objective

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 record a small underlying surplus in 2010/11 and growing to $3.27 million forecast in 2013/14. The underlying surplus is calculated by excluding the impact of capital grants and contributions, along with timing differences on operating grants.

Cash and liquidity

Objective

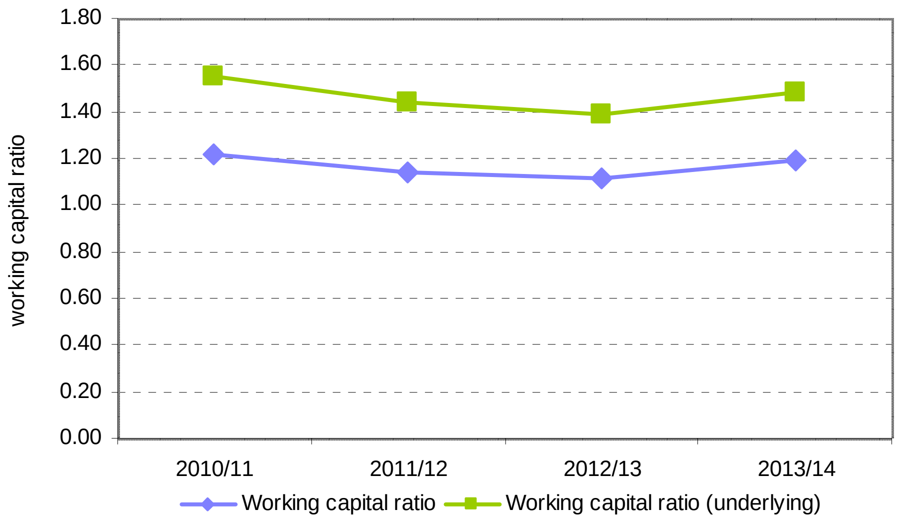
We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.

Measure

Achieve a working capital ratio of at least 1.10 : 1 in the plan.

Outcome

Cash and investments are forecast to increase from $20.22 million to $22.34 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 around 1.20.

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 maintain 1.49.

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. Appendix B "Non-financial Resources" includes a more detailed analysis of the human resources to be used over the four year period.

	2010/11 $000s	2011/12 $000s	2012/13 $000s	2013/14 $000s
Employee costs ($'000)	60,541	63,006	65,341	67,931
Employee numbers	736	736	736	736

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 inclusive of base rate increases and banding level changes. 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 2014

	F'cast 2010 $'000	Budget 2011 $'000	Budget 2012 $'000	Budget 2013 $'000	Budget 2014 $'000
Revenues from ordinary activities					
Rates and charges	78,720	83,918	87,874	92,762	97,829
User fees	10,820	10,270	10,556	10,892	11,259
Statutory fees and fines	4,203	4,747	4,851	5,062	5,089
Contributions	2,884	2,000	2,000	2,000	2,000
Grants - operating	14,107	14,920	14,972	14,503	14,752
Grants - capital	5,365	7,111	1,243	1,054	948
Other	4,074	2,928	2,891	2,926	2,978
Total revenues	120,174	125,893	124,387	129,199	134,855
Expenses from ordinary activities					
Employee benefits	57,561	60,541	63,006	65,341	67,931
Materials and services	29,733	32,353	31,947	33,657	34,192
Bad and doubtful debts	648	807	831	856	881
Finance costs	243	203	161	118	77
Depreciation and amortisation	17,077	17,395	17,826	18,478	19,118
Other	8,976	8,781	8,432	8,544	8,707
Total expenses	114,238	120,078	122,203	126,993	130,906
Net gain on disposal of property, infrastructure, plant and equipment	**367**	**148**	**270**	**359**	**272**
Net surplus / (deficit)	**6,303**	**5,962**	**2,454**	**2,564**	**4,222**

CITY OF DAREBIN
Budgeted Standard Balance Sheet
For the four years ending 30 June 2014

	F'cast 2010 $'000	Budget 2011 $'000	Budget 2012 $'000	Budget 2013 $'000	Budget 2014 $'000
Current assets					
Cash and cash equivalents	29,056	20,227	19,275	19,428	22,348
Trade and other receivables	9,166	9,322	9,478	9,635	9,793
Other assets	44	44	44	44	44
Total current assets	38,265	29,593	28,797	29,107	32,185
Non Current Assets					
Trade and other receivables	395	308	214	114	6
Property, infrastructure, plant & equipment	902,187	917,081	920,691	923,303	925,007
Investment property	3,392	3,392	3,392	3,392	3,392
Intangibles	972	972	972	972	972
Other assets	206	206	206	206	206
Total non-current assets	907,152	921,959	925,475	927,987	929,583
Total assets	945,417	951,552	954,272	957,094	961,767
Current Liabilities					
Trade and other payables	10,820	11,123	11,436	11,758	12,090
Interest-bearing loans and borrowings	622	622	637	654	472
Provisions	12,126	12,616	13,206	13,796	14,386
Total current liabilities	23,567	24,361	25,279	26,208	26,948
Non Current Liabilities					
Interest-bearing loans and borrowings	2,689	2,068	1,415	744	454
Provisions	2,374	2,374	2,374	2,374	2,374
Total non-current liabilities	5,063	4,442	3,789	3,118	2,828
Total liabilities	28,631	28,803	29,068	29,326	29,776
Net assets	**916,787**	**922,749**	**925,204**	**927,768**	**931,991**
Equity					
Accumulated Surplus	460,061	466,714	470,168	472,732	476,954
Asset Revaluation Reserve	451,900	451,900	451,900	451,900	451,900
Other Reserves	4,825	4,135	3,135	3,135	3,135
Total Equity	**916,787**	**922,749**	**925,203**	**927,768**	**931,989**

CITY OF DAREBIN
Budgeted Standard Cash Flow Statement
For the four years ending 30 June 2014

	F'cast 2010 $'000	Budget 2011 $'000	Budget 2012 $'000	Budget 2013 $'000	Budget 2014 $'000
Cash flows from operating activities					
Receipts from customers	98,885	102,438	106,772	112,209	117,670
Payments to suppliers and employees	(96,133)	(101,687)	(103,313)	(107,483)	(110,788)
	2,752	750	3,459	4,725	6,882
Interest received	1,667	1,275	1,249	1,282	1,335
Government receipts	18,772	22,030	16,215	15,557	15,700
Net cash inflow from operating activities	23,191	24,056	20,923	21,565	23,917
Cash flows from investing activities					
Proceeds from sale of prop, plant and equip	1,308	932	900	1,197	906
Repayment of loans and advances	70	81	87	94	101
Payments for other financial assets					
Payments for property, infrastructure, plant and equipment	(22,647)	(33,073)	(22,066)	(21,928)	(21,456)
Net cash outflow from investing activities	(21,269)	(32,060)	(21,078)	(20,637)	(20,449)
Cash flows from financing activities					
Finance costs	(243)	(203)	(161)	(118)	(77)
Trust funds and deposits					
Proceeds from borrowings					
Repayment of borrowings	(607)	(622)	(637)	(654)	(472)
Net cash outflow from financing activities	(850)	(824)	(798)	(773)	(548)
Net (decrease)/increase in cash & cash equivalents	**1,072**	**(8,829)**	**(952)**	**154**	**2,919**
Cash and cash equivalents at beg of year	27,984	29,056	20,227	19,275	19,428
Cash & cash equivalents at end of year	**29,056**	**20,227**	**19,275**	**19,428**	**22,348**
Represented by:					
Unrestricted cash and investments	24,230	16,091	16,138	16,293	19,212
Reserves	4,825	4,135	3,135	3,135	3,135
Total cash and investments	**29,056**	**20,227**	**19,275**	**19,428**	**22,348**

CITY OF DAREBIN
Budgeted Standard Capital Works Statement
For the four years ending 30 June 2014

	F'cast 2010 $'000	Budget 2011 $'000	Budget 2012 $'000	Budget 2013 $'000	Budget 2014 $'000
Roads	8,080	8,611	8,279	8,152	8,511
Drains	312	683	1,150	1,240	915
Open space	4,343	7,319	5,608	4,090	4,293
Buildings	7,133	13,459	4,433	4,385	4,217
Plant, equipment & other	5,757	7,588	6,129	7,313	6,707
Feasibility studies	367	542	212	200	50
Total capital works	**25,991**	**38,202**	**25,810**	**25,379**	**24,691**
Represented by:					
Asset renewal	14,230	18,329	14,071	15,419	15,719
New assets	4,572	11,437	6,255	3,769	3,291
Asset expansion / upgrade	3,844	3,307	1,740	2,740	2,446
Capital expenditure	22,646	33,073	22,066	21,928	21,456
Operating expenditure[1]	3,344	5,129	3,745	3,451	3,236
Total capital works	**25,991**	**38,202**	**25,810**	**25,379**	**24,691**
New works	25,991	30,597	25,810	25,379	24,691
Carry-forward works		7,604			
Total capital works	**25,991**	**38,202**	**25,810**	**25,379**	**24,691**

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

Reconciliation of net movement in property, plant and equipment

	Forecast 2009/10 $000s	Budget 2010/11 $000s	Strategic Resource Plan Projections 2011/12 $000s	2012/13 $000s	2013/14 $000s
Total Capital works	23,191	38,202	25,810	25,379	24,691
Maintenance projects	(3,344)	(5,129)	(3,745)	(3,451)	(3,236)
Depreciation and amortisation	(17,077)	(17,395)	(17,826)	(18,478)	(19,118)
Written down value of assets sold	(941)	(784)	(630)	(838)	(634)
Donated assets	700				
Net movement in property, plant and equipment	**2,528**	**14,894**	**3,610**	**2,612**	**1,704**

APPENDIX B
Human resources

CITY OF DAREBIN
Budgeted Statement of Human Resources
For the four years ending 30 June 2014

	Budget	Strategic Resource Plan Projections		
	2010/11	2011/12	2012/13	2013/14
	$000s	$000s	$000s	$000s
Employee costs				
Infrastructure	18,948	19,702	20,456	21,258
Communities & Culture	22,612	23,569	24,355	25,353
Corporate Services	10,085	10,487	10,917	11,333
Environmental Sustainability	863	897	933	970
Development & Amenity	7,407	7,702	8,010	8,324
Other non-attributable	626	648	668	694
	60,541	**63,006**	**65,341**	**67,931**
Employee numbers				
Total Effective Full-time Employees	736	736	736	736