

DAREBIN CITY COUNCIL Strategic Resource Plan 2011-2015



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 2011-2015.

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.

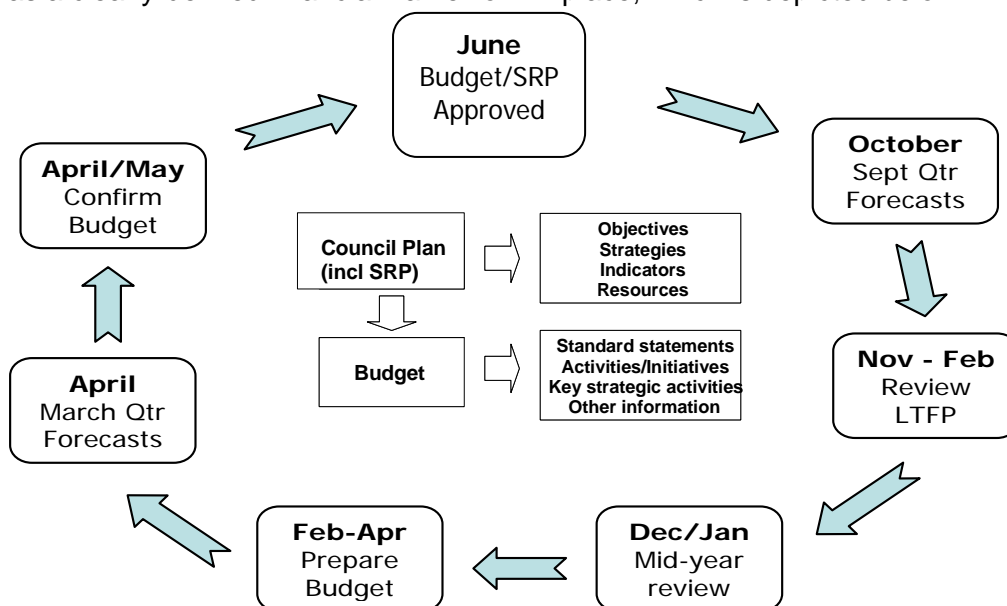
In preparing the SRP, Council has also been mindful of the need to comply with the following Principles of Sound Financial Management as contained in the Act:

- 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.

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
<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 1.1 : 1 through out 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 2010.
- 2010/11 Annual Budget and updated forecasts for 2010/11 prepared during April 2011.
- 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 Finance & Contracts department 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	Forecast	Variance
	2010/11	2010/11	
	\$000s	\$000s	\$000s
Net surplus/(deficit)	294	3,716	3,422
Underlying surplus/(deficit)	75	795	720
Cash and investments	33,840	30,728	(3,112)
Working capital ratio	1.22	1.59	0.37
Underlying working capital ratio	1.55	2.03	0.48
Capital works	37,317	34,019	(3,298)
Capital works (renewal)	18,407	19,502	1,095
Borrowings outstanding	2,689	2,689	0

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 \$3.72 million in 2010/11, compared with an original budgeted net surplus of \$0.29 million. The better than budgeted result is due mainly to additional revenue from developer and public open space contributions of \$0.60 million, Victorian Grants Commission of \$0.40 million, higher than budgeted interest revenue of \$1.08 million and lower depreciation of \$0.78 million. These favourable results were partly offset by the unbudgeted payment to Defined Benefits Superannuation Fund for a call shortfall of \$2.73 million.

After removing the impact of capital grants and timing differences relating to the receipt and expenditure of grants, an underlying surplus of \$0.80 million is expected in 2010/11 compared with a budgeted underlying surplus of \$0.08 million.

Cash and liquidity

Council is expected to hold \$30.73 million in cash and investments at 30 June 2011 compared with an original budget of \$33.84 million. The better than expected cash position is due mainly to expenditure on capital works which will be incomplete at the end of the 2010/11 year and will be carried forward for completion in 2011/12 and higher contributions and grants detailed above.

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 1.59 at 30 June 2011, 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 works program in 2010/11 is expected to be \$34.02 million compared with an original budget of \$37.32 million. \$19.50 million of the total forecast expenditure relates to the renewal of existing capital infrastructure.

Borrowings

Loan borrowings outstanding at 30 June 2011 are forecast to total \$2.69 million. This amount equates to 32% 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.

	2011/12	2012/13	2013/14	2014/15
	%	%	%	%
Consumer price index	2.5	2.5	2.5	2.5
Wages growth	4.0	4.0	4.0	4.0
Rates growth	5.0	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 2011 quarter for Melbourne was 2.9 %. The Victorian State Government Budget Papers for 2011/12 estimate CPI as 2.75% 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 4.0% per annum, being slightly above CPI and aligned to the Council's Enterprise Agreement.

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 \$19 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 \$3.87 million estimated for the 2011/12 year in Grants Commission funding. Future Grants Commission funding is forecast to remain steady across the forecast period.

Statutory fees

Council raises approximately \$5 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 throughout the plan.

Investment return

The earning rate of Council's investments has increased from around 4.0% in April 2009 to around 6.0% in April 2011. 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 2011/12, 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 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 Finance & Contracts Department and Executive Management Team. 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 directorate basis.

	Budget	Strategic Resource Plan Projections		
	2011/12	2012/13	2013/14	2014/15
	%	%	%	%
City Works & Development	3.5	5.4	4.8	4.9
City Design & Environment	2.0	4.2	3.2	2.8
Community Services	1.6	8.0	5.9	5.1
Corporate & Business Services	19.8	3.4	1.8	2.7
People & Performance	11.7	4.8	3.2	2.5

City Works & Development

- The higher increase in 2011/12 reflects the Victorian State Government's recently announced increase in tipping charges for general waste disposal to land fill from \$30 a tonne to \$44 a tonne from the 1 July 2011 and the introduction of an area hard waste collection in 2011/12 (\$0.45 million).
- 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 \$0.28 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 \$0.37 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 2011/12 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.

City Design & Environment

- The increase in expenditure forecast in the SRP relates mainly to additional expenditure for the pruning of trees around power lines and increased tipping charges.
- It is anticipated that revenue received from the operation of facilities including Reservoir Leisure Centre, Darebin Arts and Entertainment Centre, Northcote Town Hall and golf courses will grow in line with expenditure.

Community Services

- 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 high numbers in the table above for 2013/14 reflect the impact of the 2010 negotiated Enterprise Agreement that awarded home carers and maternal health nurses the opportunity to progress to a higher job banding. After removing these impacts the underlying increase in expenditure is around 3.0%.

Corporate & Business Services

- The higher increase in 2011/12 reflects new initiatives relating to Council's focus on the review and development of major projects and assets (\$0.17 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 \$0.13 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.

People & Performance

- Additional funding for projects to deliver gambling strategies to assist Council to (a) promote the responsible use of electronic gaming machines; (b) better manage the issue of gambling with the community; and (c) reduce the impact of problem gambling is included in 2011/12 and future years. A total of \$0.33 million has been included over the four year period.
- The higher increase in 2011/12 also reflects new initiatives relating to Council's focus on risk and Occupation, Health & Safety issues (\$0.32 million) and professional and leadership development for Council and the community.

The following table summarises Council's current and future proposed service delivery outcomes for the next four years.

Year	Service costs \$000s	Underlying surplus \$000s	Net Surplus \$000s
2012	67,026	1,899	6,731
2013	70,543	2,046	3,100
2014	73,382	3,759	4,707
2015	76,254	4,280	6,480

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		
	2011/12 \$000s	2012/13 \$000s	2013/14 \$000s	2014/15 \$000s
Supplementary rates	500	400	300	250
Developer contributions	2000	2000	2000	1,400
Grants Commission	3,868	3,868	3,868	3,868
Capital Grants & Contributions	4,996	1,054	948	2,200
Asset Sales	764	1,197	906	933
Insurance costs	862	1002	1037	1073
Major Maintenance	4,104	3,450	3,235	3,397

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 2011/12 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 most of the planning period, falling to \$1.40 million in 2014/15.

Grants commission

Council's Grants Commission allocation was 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. However, in 2010/11 the grant increased slightly from the previous year. The SRP has assumed Darebin's grant allocation will remain steady over the outlook period.

Capital grants and contributions

Council's receives government funding as well as private contributions to capital works projects. The forecast for 2011/12 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 \$0.76 million has been forecast in 2011/12 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 2011/12 year estimate of \$4.10 million includes \$0.16 million of major maintenance carried forward from the 2010/11 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.

	Strategic Resource Plan Projections			
	Budget	2012/13	2013/14	2014/15
	2011/12	\$000s	\$000s	\$000s
Cash and investments	25,361	25,948	29,250	32,536
Rate arrears	3,289	3,389	3,489	3,589
Payables	11,648	11,970	12,302	12,644
Borrowings (outstanding)	2,052	1,398	926	635
Employee entitlements	15,586	16,186	16,786	17,386
Statutory reserves	2,610	2,610	2,610	2,610

Cash and investments

Cash and investments are forecast to increase from \$25.362 million to \$32.53 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 2010/11. 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 2011/12: <ul style="list-style-type: none"> Residential Business (set at 175% of the residential rate) Recreational (set at 50% of the business rate) Residential vacant land (set at 300% of the residential rate) Business vacant land (set at 200% of the business rate) Electronic Gaming Machine land (set at 1.71% of 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	A rate rebate for pensioners of \$100 is being provided in the 2011/12 rating year to each owner of rateable land who is an "eligible recipient" within the meaning of the State

Rating option	Description	Current Darebin structure
	restore or maintain buildings or places of historical, environmental, architectural or scientific importance.	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.

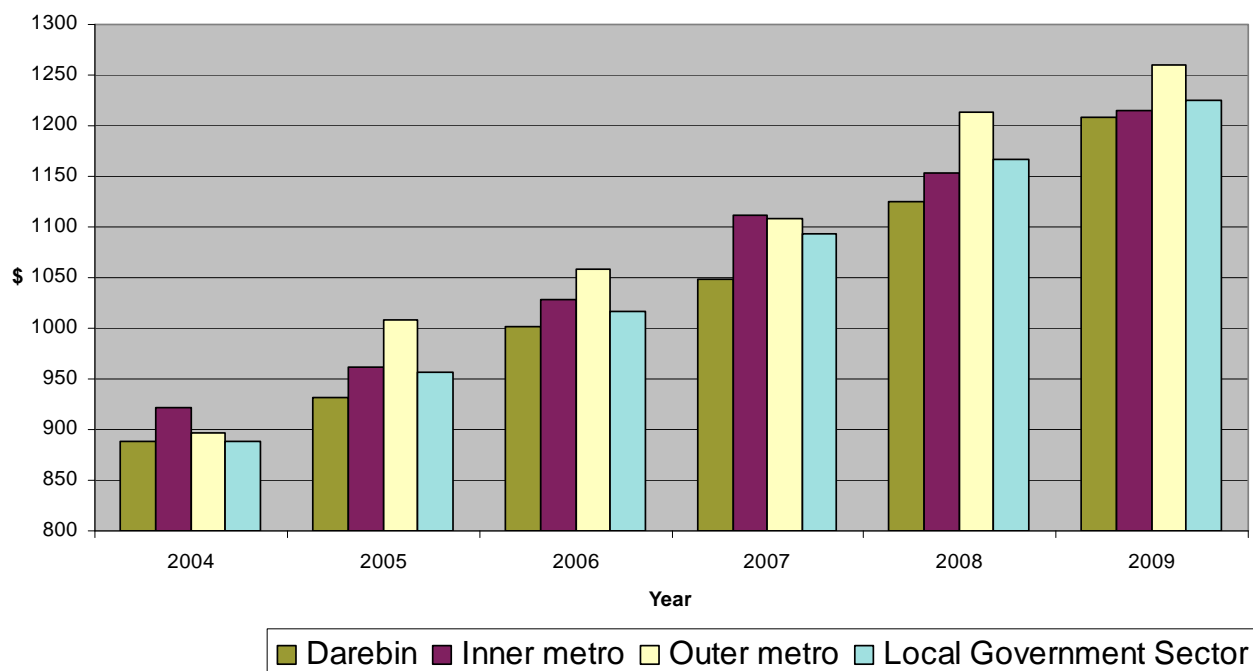
As an outcome of the review for the 2011/12 year, Council is proposing to introduce differential rates on vacant residential and business properties. These rates have been set at 1.5 times the rates for non-vacant residential and business properties respectively. Council considers the differential rates 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 2011/12, 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.

Rates & Charges per assessment



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 5.0% has been set for the 2011/12 year. A rate rebate to pensioner ratepayers of \$100, in addition to the rebate provided by the State Government, will continue to be offered in 2011/12. 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 \$2.69 million outstanding in June 2011. This equates to 3.0% 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 local government 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 2011 and internal limits that Council applies to its own borrowing considerations:

Prudential ratio	Calculation	Rationale	State Govt Limit	Darebin – June 2011	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	1.59 : 1	>1.1 : 1*
Debt commitment	Total loans as a percentage of rate revenue	Reflects total loan levels relative to Council rates	<60%	3.0%	<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, based on existing plans.

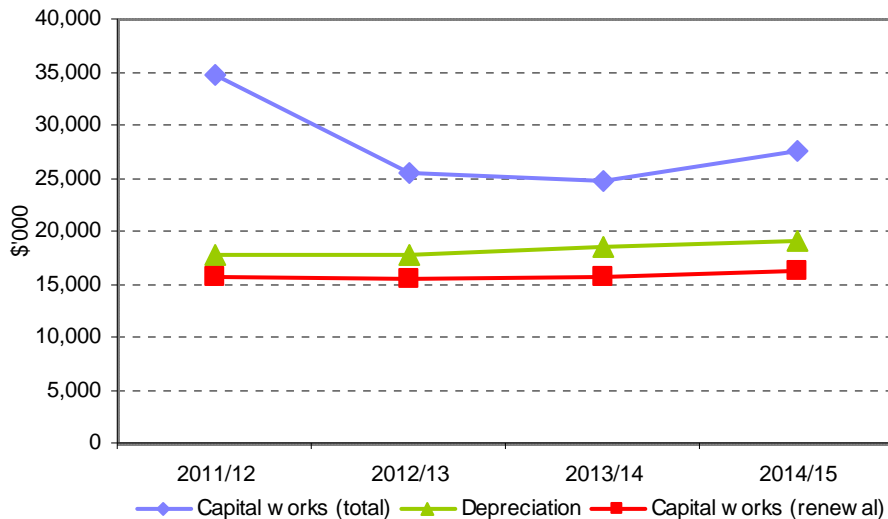
Year	New borrowings	Loan Principal repay	Loan Interest Payable	Balance 30 June
	\$000s	\$000s	\$000s	\$000s
2012	0	637	161	2,052
2013	0	654	118	1,398
2014	0	472	77	926
2015	0	291	54	635

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 2011/12 year is inflated due to the impact of projects not completed and carried forward from 2010/11. In terms of expenditure specifically on renewal works, expenditure will be lower than depreciation in 2011/12 by \$1.95 million. The future amounts allocated remain below depreciation with the underlying renewal expenditure compared with depreciation expected to remain steady between 85% and 89%. 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 \$000s	Grants & Contribs \$000s	Sale of assets \$000s	Loan Borrowing \$000s	Investment Reserves \$000s	Unrestricted Cash & Inv \$000s	Operations \$000s
2012	34,702	4,996	764	0	3,041	6,461	19,440
2013	25,379	1,054	1,197	0	2,000	0	21,128
2014	24,691	948	906	0	2,000	0	20,837
2015	27,530	2,200	933	0	1,400	0	22,997

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

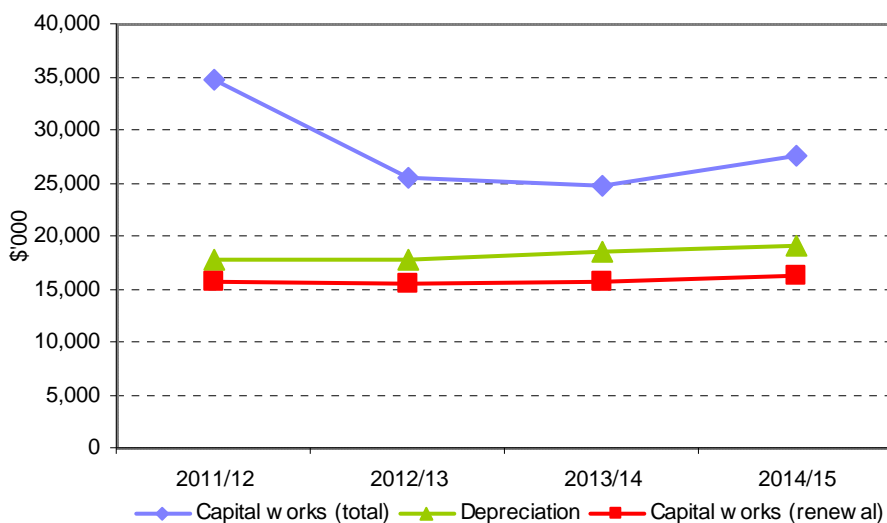
Objective

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 \$112.30 million at an average of \$28.07 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 slightly across the plan period.

Operating performance

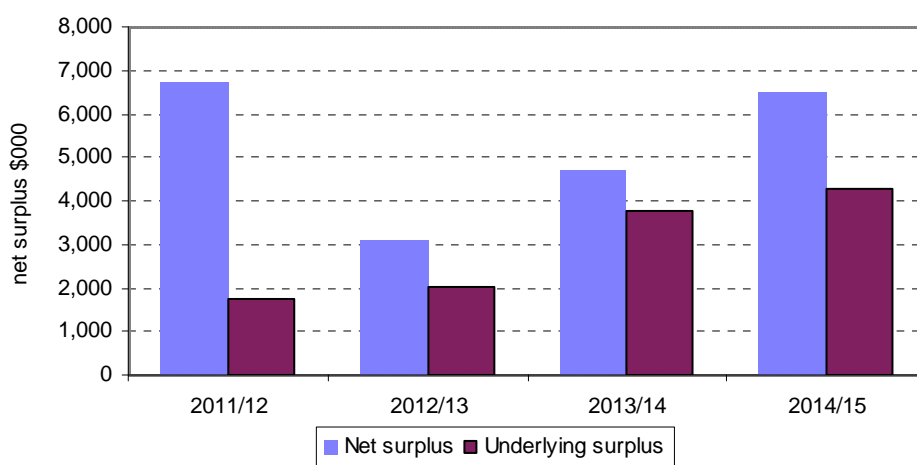
Objective

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 2011/12 and growing to \$4.28 million forecast in 2014/15. 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

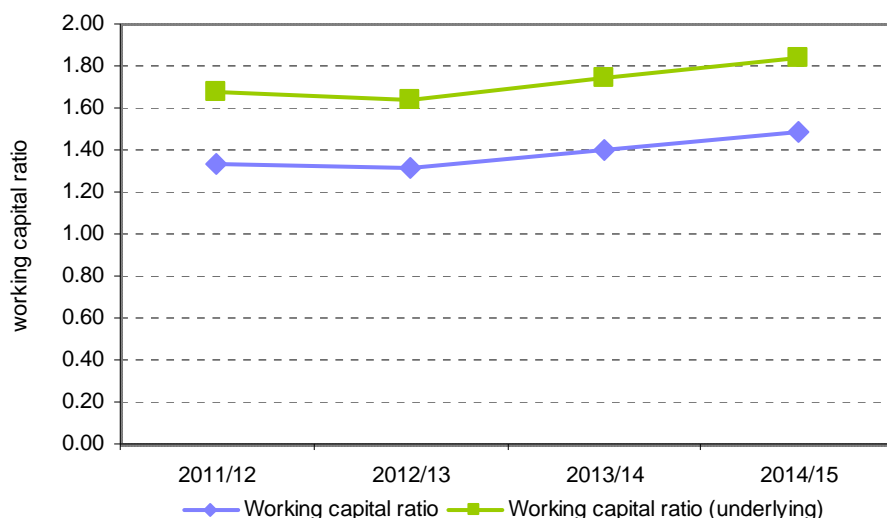
We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.

Measure

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

Outcome

Cash and investments are forecast to increase from \$25.36 million to \$32.54 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 1.40.

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 to 1.83 over the outlook period.

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.

	Budget	Strategic Resource Plan Projections		
	2011/12	2012/13	2013/14	2014/15
	\$000s	\$000s	\$000s	\$000s
Employee costs (\$'000)	63,426	66,567	69,328	72,279

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 2015

	Forecast	Budget	Budget	Budget	Budget
	2011	2012	2013	2014	2015
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Revenues from ordinary activities</i>					
Rates and charges	84,310	89,300	93,779	98,865	104,031
User fees	10,293	11,238	11,367	11,753	12,160
Statutory fees and fines	4,229	4,864	5,076	5,103	5,194
Contributions	2,000	2,000	2,000	2,000	2,000
Grants - operating	14,609	14,592	14,901	15,110	15,446
Grants - capital	4,734	4,996	1,054	948	2,200
Other	5,557	3,320	3,277	3,234	2,391
Total revenues	125,732	130,311	131,453	137,013	143,422
<i>Expenses from ordinary activities</i>					
Employee benefits	63,051	63,426	66,567	69,328	72,279
Materials and services	32,607	32,393	33,382	33,766	34,687
Bad and doubtful debts	755	681	681	681	681
Finance costs	203	161	118	77	54
Depreciation and amortisation	16,616	17,701	18,417	19,057	19,720
Other	9,083	9,352	9,548	9,669	9,801
Total expenses	122,314	123,714	128,713	132,577	137,222
Net gain on disposal of property, infrastructure, plant and equipment	298	134	359	272	280
Net surplus / (deficit)	3,716	6,731	3,100	4,707	6,480

CITY OF DAREBIN
 Budgeted Standard Balance Sheet
 For the four years ending 30 June 2015

	Forecast 2011 \$'000	Budget 2012 \$'000	Budget 2013 \$'000	Budget 2014 \$'000	Budget 2015 \$'000
Current assets					
Cash and cash equivalents	30,728	25,361	25,948	29,250	32,536
Trade and other receivables	8,466	8,620	8,774	8,928	9,056
Other assets	73	73	73	73	73
Total current assets	39,267	34,053	34,795	38,251	41,664
Non Current Assets					
Trade and other receivables	218	163	104	41	0
Property, infrastructure, plant & equipment	909,572	921,839	924,512	926,277	930,037
Investment property	3,459	3,459	3,459	3,459	3,459
Intangibles	777	777	777	777	777
Other assets	206	206	206	206	206
Total non-current assets	914,232	926,444	929,059	930,760	934,479
Total assets	953,499	960,498	963,853	969,011	976,144
Current Liabilities					
Trade and other payables	11,336	11,648	11,970	12,302	12,644
Interest-bearing loans and borrowings	622	637	654	472	291
Provisions	12,710	13,300	13,890	14,480	15,080
Total current Liabilities	24,667	25,586	26,514	27,254	28,015
Non Current Liabilities					
Interest-bearing loans and borrowings	2,068	1,415	744	454	344
Provisions	2,311	2,311	2,311	2,311	2,311
Total non-current liabilities	4,379	3,726	3,055	2,765	2,655
Total liabilities	29,046	29,311	29,569	30,019	30,669
Net assets	924,454	931,186	934,284	938,992	945,474
Equity					
Accumulated Surplus	468,903	476,676	479,774	484,482	490,964
Asset Revaluation Reserve	451,900	451,900	451,900	451,900	451,900
Other Reserves	3,651	2,610	2,610	2,610	2,610
Total Equity	924,454	931,186	934,284	938,992	945,474

CITY OF DAREBIN
Budgeted Standard Cash Flow Statement
 For the four years ending 30 June 2015

	Forecast 2011 \$'000	Budget 2012 \$'000	Budget 2013 \$'000	Budget 2014 \$'000	Budget 2015 \$'000
<i>Cash flows from operating activities</i>					
Receipts from customers	103,115	108,643	113,392	118,793	123,862
Payments to suppliers and employees	(103,947)	(104,268)	(108,584)	(111,841)	(115,826)
	(832)	4,375	4,808	6,952	8,036
Interest received	2,370	1,249	1,276	1,331	1,082
Government receipts	19,343	19,588	15,955	16,058	17,646
Net cash inflow from operating activities	20,880	25,212	22,038	24,341	26,766
<i>Cash flows from investing activities</i>					
Proceeds from sale of prop, plant and equip	1,351	764	1,197	906	933
Repayment of loans and advances	47	51	55	59	63
Payments for property, infrastructure, plant and equipment	(28,866)	(30,597)	(21,928)	(21,456)	(24,133)
Net cash outflow from investing activities	(27,468)	(29,782)	(20,676)	(20,491)	(23,135)
<i>Cash flows from financing activities</i>					
Finance costs	(203)	(161)	(118)	(77)	(54)
Repayment of borrowings	(622)	(637)	(654)	(472)	(291)
Net cash outflow from financing activities	(824)	(798)	(773)	(548)	(345)
Net (decrease)/increase in cash & cash equivalents	(7,413)	(5,367)	588	3,301	3,286
Cash and cash equivalents at beg of year	38,141	30,728	25,360	25,949	29,250
Cash & cash equivalents at end of year	30,728	25,361	25,948	29,250	32,536
<i>Represented by:</i>					
Unrestricted cash and investments	27,077	22,750	23,339	26,640	29,924
Reserves	3,651	2,610	2,610	2,610	2,610
Total cash and investments	30,728	25,361	25,948	29,250	32,536

CITY OF DAREBIN
Budgeted Standard Capital Works Statement
 For the four years ending 30 June 2015

	Forecast 2011 \$'000	Budget 2012 \$'000	Budget 2013 \$'000	Budget 2014 \$'000	Budget 2015 \$'000
Roads	7,360	8,293	8,152	8,511	10,262
Drains	808	725	1,240	915	1,291
Open space	6,549	7,738	4,090	4,293	3,770
Buildings	11,770	11,231	4,385	4,217	5,723
Plant, equipment & other	6,940	6,681	7,313	6,707	6,432
Feasibility studies	592	34	200	50	53
Total capital works	34,019	34,702	25,379	24,691	27,530
Represented by:					
Asset renewal	19,502	15,752	15,419	15,719	16,191
New assets	5,755	8,648	3,769	3,291	3,389
Asset expansion / upgrade	3,609	6,197	2,740	2,446	2,519
Capital expenditure	28,866	30,597	21,928	21,456	24,133
Operating expenditure ¹	5,153	4,105	3,451	3,236	3,397
Total capital works	34,019	34,702	25,379	24,691	27,530
New works	34,019	28,241	25,379	24,691	27,530
Carry-forward works		6,461			
Total capital works	34,019	34,702	25,379	24,691	27,530

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	Budget	Strategic Resource Plan Projections		
	2010/11 \$000s	2011/12 \$000s	2012/13 \$000s	2013/14 \$000s	2014/15 \$000s
Total Capital works	34,019	34,702	25,379	24,691	27,530
Maintenance projects	(5,153)	(4,105)	(3,451)	(3,236)	(3,397)
Depreciation and amortisation	(16,616)	(17,701)	(18,417)	(19,057)	(19,720)
Written down value of assets sold	(1,053)	(630)	(838)	(634)	(653)
Net movement in property, plant and equipment	11,198	12,266	2,673	1,765	3,760

APPENDIX B

Human resources



CITY OF DAREBIN
Budgeted Statement of Human Resources
 For the four years ending 30 June 2015

	Budget	Strategic Resource Plan		
	2011/12	2012/13	2013/14	2014/15
	\$000s	\$000s	\$000s	\$000s
Employee costs				
Infrastructure	16,149	16,821	17,505	18,216
Communities & Culture	11,562	11,989	12,373	12,868
Corporate Services	21,652	22,867	23,993	25,130
Environmental Sustainability	7,915	8,254	8,567	8,910
Development & Amenity	5,543	5,755	5,975	6,203
Other non-attributable	606	881	916	952
	63,426	66,567	69,328	72,279

