DAREBIN CITY COUNCIL
Strategic Resource Plan
2013-2017

City of DAREBIN

Executive summary

In its 2013-2017 Council Plan, the Darebin Council's vision is: *Darebin, the place to live* and mission: *Working with our diverse community to build a sustainable and liveable city.*

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

The Strategic Resource Plan (SRP) includes details of both the financial and non-financial resources required to achieve the strategic objectives included in the Council Plan. The SRP is part of Council's ongoing financial planning to assist in adopting each annual budget within a longer term framework.

The SRP 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 2013-2017 Council Plan, the Darebin Council's vision is: *Darebin, the place to live* and mission: *Working with our diverse community to build a sustainable and liveable city.*

A key part of this vision and mission 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.

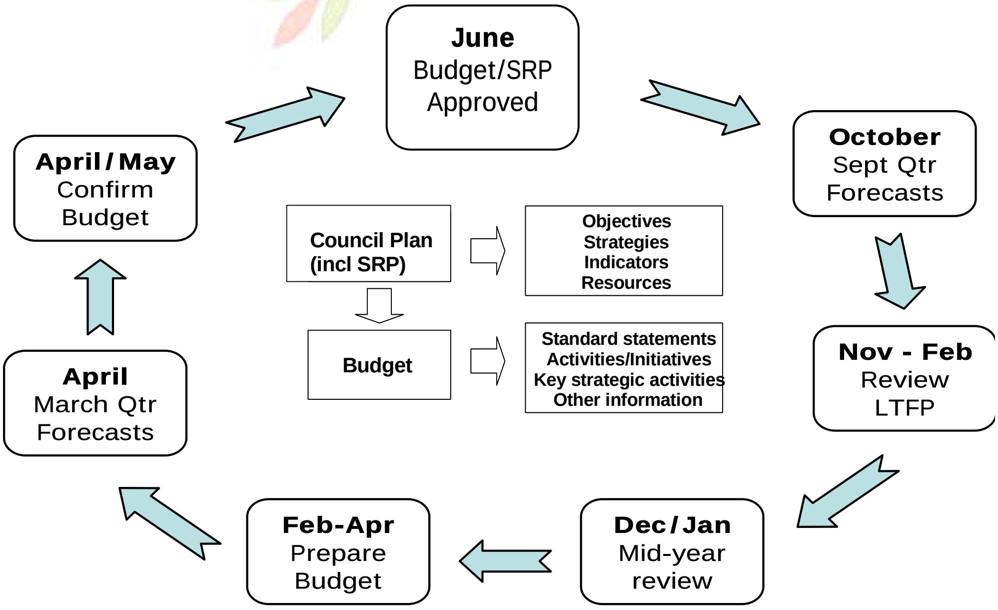
In preparing the SRP, Council has also been mindful of the need to comply with the following Principles of Sound Financial Management as contained in the Act:

- 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 October 2016, 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 2012.
- 2013/14 Annual Budget and updated forecasts for 2012/13 prepared during April 2013.
- 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 Finance & Contracts department 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 2012/13 $000s	Forecast 2012/13 $000s	Variance $000s
Net surplus/(deficit)	8,144	6,934	(1,211)
Underlying surplus/(deficit)	184	1,590	1,406
Cash and investments	36,738	26,680	(10,058)
Working capital ratio	1.74	1.46	(0.28)
Capital works	40,502	32,923	(7,579)
Capital works (renewal)	15,589	11,102	(4,487)
Borrowings outstanding	619	619	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 $6.93 million in 2012/13, compared with an original budgeted net surplus of $8.14 million. This lower than budgeted result is due mainly to less capital grants & contributions received ($3.78 million), partially offset by additional revenue from developer and public open space contributions of $2.42 million.

After removing the impact of capital grants and timing differences relating to the receipt and expenditure of grants, an underlying surplus of $1.59 million is expected in 2012/13 compared with a budgeted underlying surplus of $0.18 million.

Cash and liquidity

Council is expected to hold $26.68 million in cash and investments at 30 June 2013 compared with an original budget of $36.74 million. The reduction in the expected cash position is due mainly to the payment of $13.67 million to Vision Superannuation for the Defined Benefit Superannuation funding call in March 2013, slightly offset by expenditure on capital works which will be incomplete at the end of the 2012/13 year and will be carried forward for completion in 2013/14.

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 1.46 at 30 June 2013, indicating that Council has sufficient short-term assets to meet its payment obligations.

Capital works

Total expenditure on the capital works program in 2012/13 is expected to be $32.92 million compared with an original budget of $40.50 million. Delay in receiving external funding for Keon Park Community Hub ($2.30 million) and Reservoir Library redevelopment ($3.28 million) has resulted in the budget for these projects being carried into 2013/14 for completion. $11.10 million of the total forecast expenditure relates to the renewal of existing capital infrastructure.

Borrowings

Loan borrowings outstanding at 30 June 2013 are forecast to total $0.62 million. This amount equates to 0.6% 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 26.8% 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.

	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Consumer price index	**2.5**	2.5	2.5	2.5
Wages growth	**3.5**	3.5	3.5	3.5
Rates growth	**5.9**	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	**4.25**	5.0	5.0	5.0

Consumer price index (CPI)

The annual inflation rate advised by the Australian Bureau of Statistics for the March 2013 quarter for Melbourne was 2.5%. The Victorian State Government Budget Papers for 2012/13 estimate CPI as 2.75% p.a. and 2.5% for the final three years of the outlook period (the budget papers for 2013/14 are not yet available). 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 3.5% 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 $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 $4.75 million estimated for the 2013/14 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

While economic forecasts vary, it is generally expected that interest rates will remain steady in 2013/14 but then improve to around 5% for future years. The expected investment earning rate has been set at 4.25% in 2013/14, and 5% in 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		
	2013/14	2014/15	2015/16	2016/17
	%	%	%	%
City Works & Development	(1.9)	3.8	3.9	3.9
City Design & Environment	4.2	2.5	4.8	4.8
Community Services	6.3	7.4	5.7	5.7
Corporate & Business Services	4.0	3.9	6.0	6.6
People & Performance	15.7	1.5	3.8	3.0
	3.7	**4.0**	**4.8**	**4.8**

City Works & Development

- 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 plan assumes that fuel prices in 2013/14 will remain relatively steady and then increase in line with inflation, noting that actual forecasts will be adjusted to respond to major fuel price changes that may occur.
- The delivery of various planning scheme amendments and heritage studies will have a cost to Council of $0.27 million which is included in the 2013/14 budget
- The reduction indicated in 2013/14 has resulted from the completion in 2012/13 of several projects including the removal of chewing gum from footpaths. Also contributing to this reduction is the utilisation of staff in capital projects that sees these costs transferred from the operating result to capital works projects and a 12% increase in revenue from building and planning fees reflecting the growth in developments throughout the municipality.

City Design & Environment

- The redevelopment of the Reservoir Library has affected various Council services and will result in reduced rental income due to the relocation of these services to the Northcote Town Hall.
- 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. Census data from the 2011 census shows that the percentage of Darebin residents aged 70+ has increased from 11.3% in 2006 to 12% in 2011 and it is anticipated that with an ageing community that service levels will increase accordingly.
- The high numbers in the table above reflect the impact of the aging population and the need to provide for these people. Council ensures all Darebin's community requiring home care assistance receive this service. No waiting list is maintained.

Corporate & Business Services

- There are a number of IT systems currently being implemented and with these new systems are the applicable annual license costs. License and contract costs associated with Council's various IT systems are expected to increase by $0.20 million over the four year period.
- Property valuations for rating purposes are completed bi-annually, with the next valuations to be undertaken in the 2013/14 year. Council engages an external contractor to undertake the valuation of commercial properties and collect land use and employment data with a cost to Council of around $0.33 million over the four years of the plan.

People & Performance

- The large increase in 2013/14 is partially due to several one off projects including increased spending on graffiti removal of $0.36 million and the implementation of various action plans focusing various issues including multiculturalism, women's equity, affordable housing and human rights ($0.13 million).
- An increased focus on risk management will see an increase in expenditure of $0.26 million in 2013/14. This will assist in equipping the Corporate Risk Management team with the necessary resources to focus on risk mitigation and business continuity planning.

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
2014	**79,324**	**44**	**10,680**
2015	82,473	908	5,808
2016	86,401	1,072	5,972
2017	90,547	1,414	6,314

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		
	2013/14	2014/15	2014/16	2016/17
	$000s	$000s	$000s	$000s
Supplementary rates	500	250	200	200
Developer contributions	2000	1400	1400	1400
Grants Commission	4,751	4,846	4,942	5,041
Capital Grants & Contributions	8,636	3,500	3,500	3,500
Asset Sales	1,008	1,038	1,069	1,101
Insurance costs	1,025	1,025	1,025	1,025
Major Maintenance	6,077	6,380	6,699	7,034

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 million in 2013/14 reducing to $0.20 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. Darebin's developer contribution scheme ceases in 2014, but is expected to be replaced with a Victorian wide developer contribution scheme. It is anticipated that this new scheme will provide similar levels of funding as the current Darebin developer contribution scheme.

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 2013/14 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 $1.00 million has been forecast in 2013/14 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.

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 $6.00 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 2013/14 year estimate of $6.01 million.

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 2015 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. 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		
	2012/13	2013/14	2014/15	2015/16
	$000s	$000s	$000s	$000s
Cash and investments	25,428	29,635	34,237	39,570
Rate arrears	4,217	4,317	4,417	4,517
Payables	11,639	11,980	12,332	12,695
Borrowings (outstanding)	300	172	36	0
Employee entitlements	16,011	16,611	17,211	17,811
Statutory reserves	8,167	8,167	8,167	8,167

Cash and investments
Cash and investments are forecast to increase from $25.43 million to $39.57 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 and possible defined benefit superannuation funding calls.

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 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 67% 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	Darebin structure for 2013/14
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 2013/14: • Residential • Business (set at 1.75 times the residential rate) • Recreational (set at 50% of the business rate) • Residential vacant land (set at 3 times the residential rate) • Business vacant land (set at 4 times the residential rate) • Derelict Business land (set at 4 times the residential rate) • Vacant retail land (set at 4 times the residential rate) • Mixed usage occupancy (set at 1.25 times the residential 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	Service rates or annual service charges (or a combination of both) can be levied for	Darebin levies a service charge for residents who elect to use the optional

Rating option	Description	Darebin structure for 2013/14
and charges	provision of a water supply, collection and disposal or waste, and sewerage services.	green waste service, with a discount for pensioners. Darebin does not levy an environmental charge.
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 $130 is provided in the 2013/14 rating year to each owner of rateable land who is an "eligible recipient" within the meaning of the State Concessions Act 2004.

Rating structure review

Each year, as part of the budget process, Council completes a comprehensive review of Darebin's rating system which consideres possible rate differential options that can increase the efficiency and equity of the current rating system. This review also explored 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 these reviews, Council introduced differential rates on vacant residential and business properties in 2010/11 and a differential rate for electronic gaming machine land in 2011/12. The vacant land differential rate, introduced in 2010/11 at 1.5 times the residential differential rate to encourage greater development in the municipality, was increased to 3 times the differential residential rate in 2011/12. In response to the community concerns raised in 2011/12 as a result of the increase in differential rate, the vacant land differential rates for residents was changed in 2012/13 to only apply to land that has been vacant for more than 18 months and a valid building permit has not been obtained.

Following the update of the Local Government Act in 2012 and the release of the *Ministerial Guidelines for Differential Rating* in April 2013, the electronic gaming machine land differential rate will not be imposed in 2013/2014. Since 2011, gaming venue rates have been set at 4 times the residential rate. These rates will revert to the business rate, which is 1.75 times residential rates, removing $0.30 million from Council's budget. Council had utilised this additional rate revenue to run programs through the Darebin Intercultural Centre that provide an alternative to gambling, target problems gamblers and prevent others in the community from becoming problem gamblers. These programs will still be run with funding provided by general residential and business rates.

Council is proposing in the 2013/2014 year to introduce differential rates on derelict commercial buildings, vacant retail land and mixed-use dwellings.

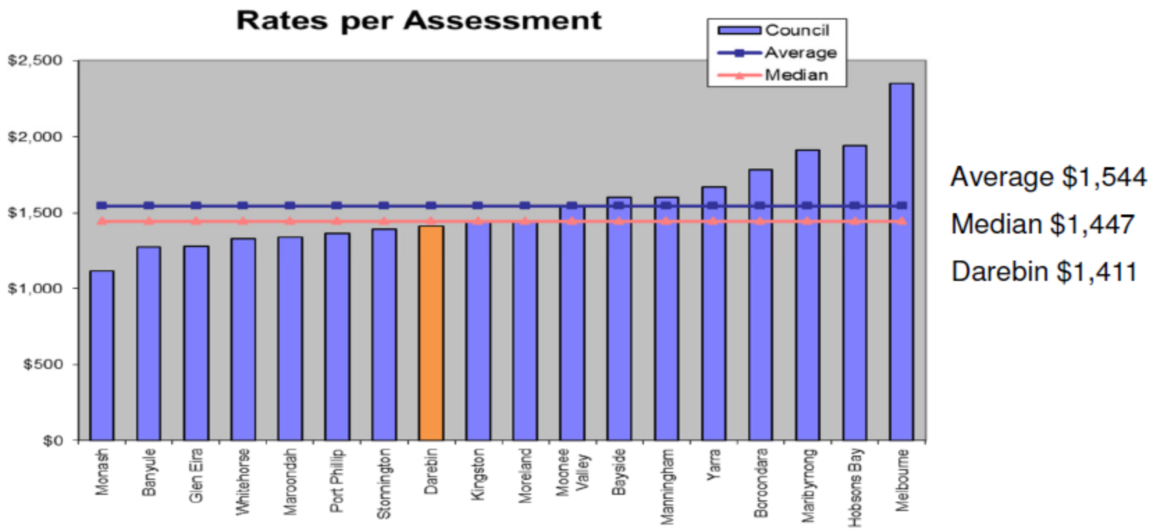
The objective of the differential rates for derelict commercial buildings and vacant retail land is to promote responsible land management through appropriate maintenance and development of the land to stimulate economic development. This differential rate will be set at 4 times the residential rate or 2.3 times the business rate.

The differential rate for mixed-use dwellings is being introduced to better reflect the use of these dwellings. In 2013/2014, a rate payer that owns and resides in a property that is their principle place of residence and is occupied for the purposes of operating a business will be charged at 1.25 times the residential rate for the entire property.

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.

Rating levels

In 2012 rating levels in Darebin (average of $1,411 per assessment) were 9.4% lower than the average for Victorian inner metropolitan Councils (average of $1,544) and also lower than the overall sector. The chart below is based on the most recent data published by each council and shows average rates per total assessment for the 2012 year for Victorian inner metropolitan Councils.



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 5.9% has been set for the 2013/14 year.

2% of the rate increase will be used to create an infrastructure fund. In 2013/14 the infrastructure fund will contribute to the development of the Keon Park Community Hub ($1.89 million). In future years, the community will be consulted on the project(s) to be supported by the infrastructure fund.

It is proposed that the Council-funded rate rebate increase to $130. The pensioner rate rebate was first introduced in the 2010/2011 year and is to assist in the proper development of the municipal district, in accordance with section 169 of the Act.

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 $0.62 million outstanding in June 2013. This equates to 0.6% of total rate revenue, and compares with an average borrowing rate of 26.8% 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 2012 and internal limits that Council applies to its own borrowing considerations:

Prudential ratio	Calculation	Rationale	State Govt Limit	Darebin – June 2012	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	2.10 : 1	>1.1 : 1*
Debt commitment	Total loans as a percentage of rate revenue	Reflects total loan levels relative to Council rates	<60%	14.8%	<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%	0.1%	<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.

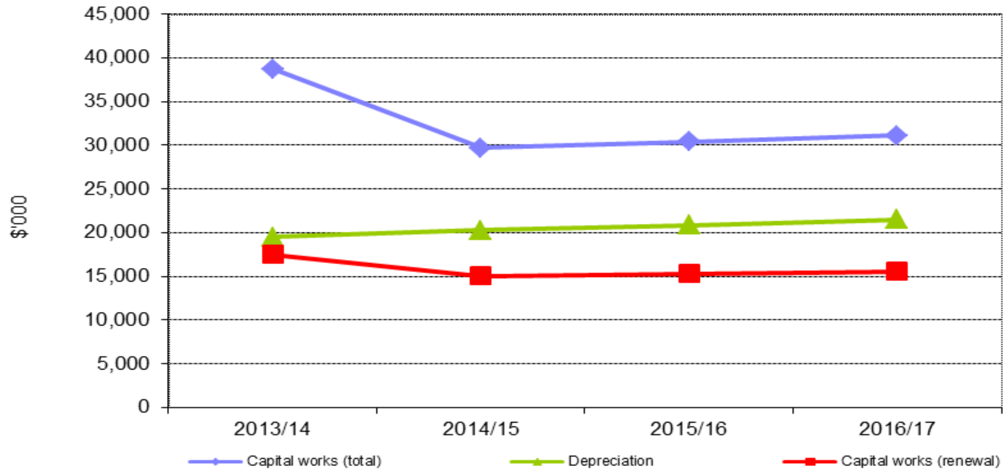
Year	New borrowings $000s	Loan Principal repay $000s	Loan Interest Payable $000s	Balance 30 June $000s
2014	0	320	28	300
2015	0	128	16	172
2016	0	136	7	36
2017	0	36	0	0

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 2013/14 year is inflated due to the impact of projects not completed and carried forward from 2012/13. In terms of expenditure specifically on renewal works, expenditure will be lower than depreciation in 2013/14 by $2.04 million. The future amounts allocated remain below depreciation with the underlying renewal expenditure compared with depreciation expected to remain steady between 70% and 75%. 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 Borrowings $000s	Investment Reserves $000s	Unrestricted Cash & Inv $000s	Operations $000s
2014	**38,729**	**8,636**	**1,008**	**0**	**2,813**	**7,579**	**18,693**
2015	29,668	3,500	1,038	0	1,400	0	23,730
2016	30,368	3,500	1,069	0	1,400	0	24,399
2017	31,082	3,500	1,101	0	1,400	0	25,081

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

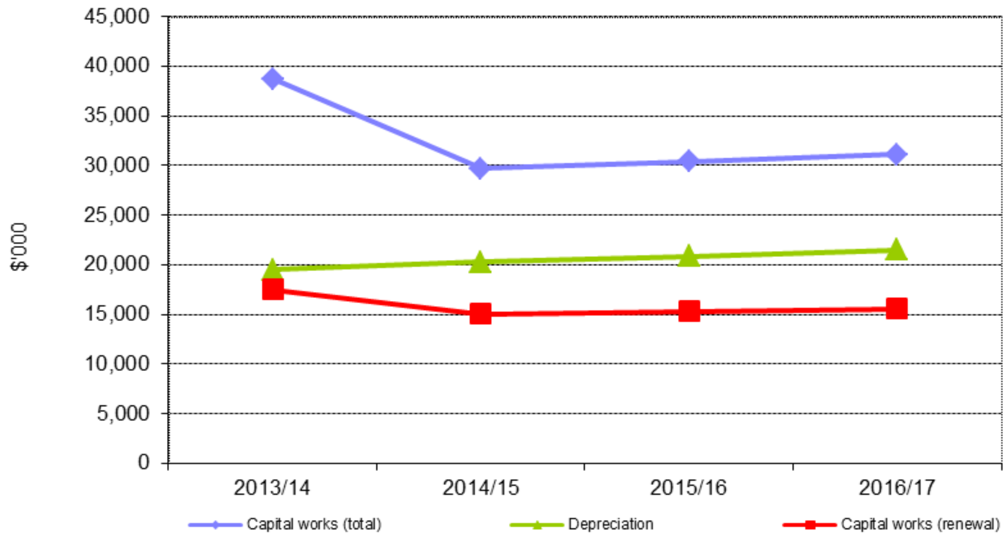
Objective

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 $129.85 million at an average of $32.46 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

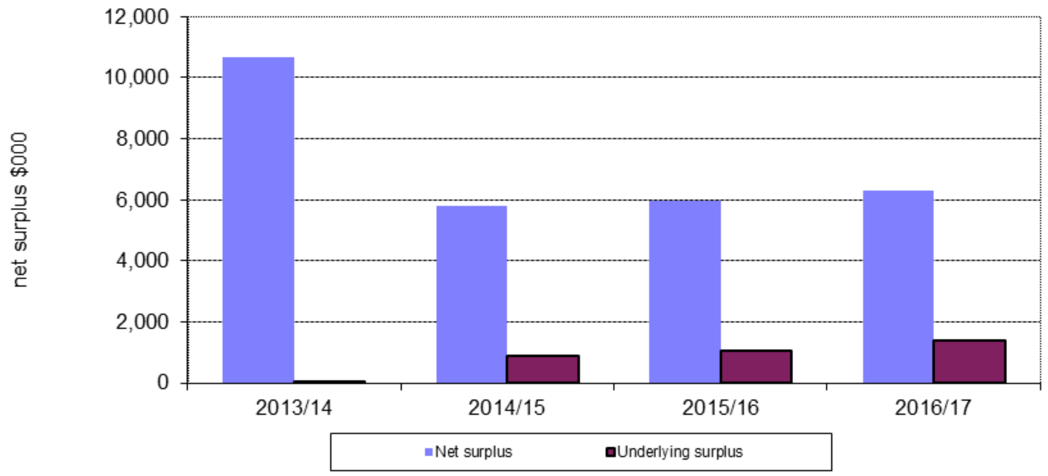
Objective

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 achieve an underlying operating surplus of $0.04 million in 2013/14 and growing to $1.41 million in 2016/17. The underlying surplus is calculated by excluding the impact of capital grants and contributions and timing differences such as operating grants.

The amount of the underlying surplus is forecast to increase over the period of the SRP to rebuild cash reserves that were reduced by the payment in March 2013 of $13.67 million for the defined benefit superannuation funding call. It is likely that Victorian Councils will be required to fund shortfalls in the defined superannuation fund in the future. Building a modest cash balance is financially prudent.

Cash and liquidity

Objective

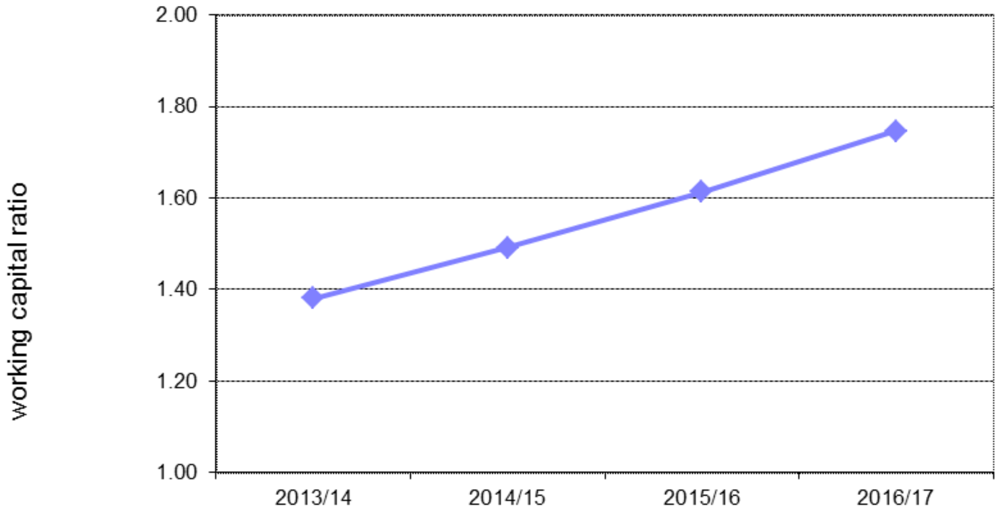
We will ensure Council holds sufficient cash and other assets in order to meet payment obligations to suppliers and employees.

Measure

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

Outcome

Cash and investments are forecast to increase from $25.43 million to $39.57 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 and potential defined benefit superannuation funding calls.



The working capital ratio reflects the difference between the current assets and current liabilities on Council's balance sheet, expressed as a ratio. Council's working capital ratio is forecast to be 1.38 as at 30 June 2014.

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		
	2013/14	2014/15	2015/16	2016/17
Employee costs ($'000)	72,394	75,111	78,466	82,088
Employee numbers (EFTs)*	659	659	659	659

*Excludes Home Care workers and casuals

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 2017

	Forecast 2013 $'000	Budget 2014 $'000	Proposed Budget 2015 $'000	Proposed Budget 2016 $'000	Proposed Budget 2017 $'000
Revenues from ordinary activities					
Rates and charges	94,804	100,749	106,123	111,643	117,382
User fees	11,507	12,620	13,059	13,435	13,821
Statutory fees and fines	5,774	5,633	5,745	5,860	6,086
Contributions	4,424	2,000	2,000	1,400	1,400
Grants - operating	12,994	15,261	15,367	15,741	16,127
Grants - capital	4,600	8,636	3,500	3,500	3,500
Other	5,684	5,259	5,363	6,046	6,133
Total revenues	139,786	150,158	151,157	157,624	164,449
Expenses from ordinary activities					
Employee benefits	68,795	72,394	75,111	78,466	82,088
Materials and services	35,021	38,406	39,405	40,972	42,700
Bad and doubtful debts	711	815	833	849	865
Finance costs	132	28	16	7	0
Depreciation and amortisation	18,840	19,503	20,258	20,863	21,477
Other	9,750	8,634	10,036	10,816	11,334
Total expenses	133,249	139,781	145,660	151,974	158,465
Net gain on disposal of property, infrastructure, plant and equipment	**397**	**302**	**311**	**321**	**330**
Net surplus / (deficit)	**6,934**	**10,680**	**5,808**	**5,972**	**6,314**
Capital Grants	(4,600)	(8,636)	(3,500)	(3,500)	(3,500)
DCP/POS Contributions	(4,424)	(2,000)	(1,400)	(1,400)	(1,400)
Maintenance cfwd from prev. years	250				
Grant Funding (received in advance)	3,430				
Underlying Surplus / (deficit)	**1,590**	**44**	**908**	**1,072**	**1,414**

CITY OF DAREBIN
Budgeted Standard Balance Sheet
For the four years ending 30 June 2017

	Forecast 2013 $'000	Budget 2014 $'000	Proposed Budget 2015 $'000	Proposed Budget 2016 $'000	Proposed Budget 2017 $'000
Current assets					
Cash and cash equivalents	26,680	25,429	29,634	34,236	39,569
Trade and other receivables	9,953	10,107	10,261	10,389	10,498
Other assets	1,359	1,359	1,359	1,359	1,359
Total current assets	37,992	36,895	41,254	45,984	51,426
Non Current Assets					
Trade and other receivables	277	214	173	173	173
Property, infrastructure, plant & equipment	1,112,833	1,125,277	1,127,579	1,129,636	1,131,435
Investment property	3,615	3,615	3,615	3,615	3,615
Intangibles	263	263	263	263	263
Other assets	206	206	206	206	206
Total non-current assets	1,117,194	1,129,575	1,131,836	1,133,893	1,135,692
Total assets	1,155,186	1,166,470	1,173,091	1,179,877	1,187,118
Current Liabilities					
Trade and other payables	11,307	11,639	11,980	12,332	12,695
Interest-bearing loans and borrowings	320	128	136	36	
Provisions	14,352	14,942	15,542	16,142	16,742
Total current liabilities	25,979	26,708	27,659	28,510	29,437
Non Current Liabilities					
Interest-bearing loans and borrowings	300	172	36		
Provisions	1,104	1,104	1,104	1,104	1,104
Total non-current liabilities	1,404	1,276	1,140	1,104	1,104
Total liabilities	27,382	27,984	28,798	29,614	30,541
Net assets	**1,127,804**	**1,138,485**	**1,144,292**	**1,150,262**	**1,156,577**
Equity					
Accumulated Surplus	471,898	483,391	489,200	495,169	501,483
Asset Revaluation Reserve	646,926	646,926	646,926	646,926	646,926
Other Reserves	8,980	8,167	8,167	8,167	8,167
Total Equity	**1,127,804**	**1,138,485**	**1,144,292**	**1,150,262**	**1,156,577**

CITY OF DAREBIN
Budgeted Standard Cash Flow Statement
For the four years ending 30 June 2017

	Forecast 2013 $'000	Budget 2014 $'000	Proposed Budget 2015 $'000	Proposed Budget 2016 $'000	Proposed Budget 2017 $'000
Cash flows from operating activities					
Receipts from customers	119,337	123,835	129,747	135,746	142,087
Payments to suppliers and employees	(127,768)	(118,513)	(123,637)	(129,321)	(135,119)
	(8,431)	5,323	6,109	6,425	6,968
Interest received	2,145	1,461	1,561	1,638	1,720
Government receipts	17,594	23,897	18,867	19,241	19,627
Net cash inflow from operating activities	11,308	30,681	26,537	27,304	28,315
Cash flows from investing activities					
Proceeds from sale of prop, plant and equip	1,028	1,008	1,038	1,069	1,101
Repayment of loans and advances	55	59	63	41	
Payments for other financial assets					
Payments for property, infrastructure, plant and (	(28,107)	(32,653)	(23,288)	(23,669)	(24,048)
Net cash outflow from investing activities	(27,024)	(31,586)	(22,186)	(22,558)	(22,946)
Cash flows from financing activities					
Finance costs	(132)	(28)	(16)	(7)	(0)
Trust funds and deposits					
Proceeds from borrowings					
Repayment of borrowings	(1,433)	(320)	(128)	(136)	(36)
Net cash outflow from financing activities	(1,565)	(348)	(145)	(145)	(37)
Net (decrease)/increase in cash & cash equiv	**(17,281)**	**(1,251)**	**4,206**	**4,601**	**5,332**
Cash and cash equivalents at beg of year	43,961	26,680	25,428	29,635	34,237
Cash & cash equivalents at end of year	**26,680**	**25,429**	**29,634**	**34,236**	**39,569**
Represented by:					
Unrestricted cash and investments	17,701	17,261	21,468	26,070	31,403
Reserves	8,980	8,167	8,167	8,167	8,167
Total cash and investments	**26,680**	**25,429**	**29,634**	**34,236**	**39,569**

CITY OF DAREBIN
Budgeted Standard Capital Works Statement
For the four years ending 30 June 2017

Capital Works Statement	Forecast 2013 $'000	Budget 2014 $'000	Proposed Budget 2015 $'000	Proposed Budget 2016 $'000	Proposed Budget 2017 $'000
Roads	7,318	7,330	10,876	11,122	11,372
Drains	589	644	1,574	1,613	1,654
Open space	6,156	8,483	4,818	4,957	5,100
Buildings	12,583	15,838	5,724	5,873	6,026
Plant, equipment & other	6,277	6,435	6,677	6,803	6,930
Total capital works	**32,923**	**38,729**	**29,668**	**30,368**	**31,082**
Represented by:					
Asset renewal	11,102	17,455	15,062	15,308	15,553
New assets	11,400	7,705	4,963	5,044	5,125
Asset expansion / upgrade	5,604	7,492	3,263	3,316	3,369
Capital expenditure	28,106	32,652	23,288	23,669	24,048
Operating expenditure[1]	4,816	6,077	6,380	6,699	7,034
Total capital works	**32,922**	**38,729**	**29,668**	**30,368**	**31,082**
New works	24,550	31,150	29,668	30,368	31,082
Carry-forward works	8,372	7,579			
Total capital works	**32,922**	**38,729**	**29,668**	**30,368**	**31,082**

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 2013 $000s	Budget 2014 $000s	Strategic Resource Plan Projections 2015 $000s	2016 $000s	2017 $000s
Total Capital works	32,923	38,729	29,668	30,368	31,082
Maintenance projects	(4,816)	(6,077)	(6,380)	(6,699)	(7,034)
Depreciation and amortisation	(18,840)	(19,503)	(20,258)	(20,863)	(21,477)
Written down value of assets sold	(631)	(706)	(727)	(749)	(771)
Net movement in property, plant and equipment	**8,636**	**12,444**	**2,303**	**2,057**	**1,799**

APPENDIX B
Human resources

CITY OF DAREBIN
Budgeted Statement of Human Resources
For the four years ending 30 June 2016

	Budget 2013/14 $000s	2014/15 $000s	Budget 2015/16 $000s	2016/17 $000s
Employee costs				
City Works & Development	15,297	15,943	16,651	17,391
City Design & Environment	13,000	13,474	14,072	14,697
Community Services	22,831	24,088	25,269	26,515
Corporate & Business Services	12,688	13,222	13,808	14,437
People & Performance	7,241	7,324	7,561	7,896
Other non-attributable	1,339	1,060	1,105	1,151
	72,394	**75,111**	**78,466**	**82,088**
Employee numbers				
Total Effective Full-time Employees	659	659	659	659

*Note: Effective Full-Time Employees numbers excludes Home Carers