SHIRE OF STRATHBOGIE

STRATEGIC RESOURCE PLAN 2013/14 TO 2017/18

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1. EXECUTIVE SUMMARY

1.1 INTRODUCTION and MAYOR'S FORWARD

On behalf of Council, I am pleased to present the Draft Strategic Resource Plan (SRP) to the community. In reading this report it is important to note the amounts quoted may alter as Council continues working on its new Draft 2013-14 Budget. Information in this Draft SRP is currently based upon the previous Council's Long Term Financial Plan. We provide this report in the spirit of an open and transparent organisation with a commitment to continual improvement.

Council is required under the Local Government Act (1989), to prepare a *Strategic Resource Plan* (SRP).

The SRP outlines the resources required to achieve Council's strategic objectives expressed in the Council Plan. The SRP must include:

a. Details of financial resources (Standard Statements); and
b. Details of non-financial resources, including human resources.
c. Council must adopt its SRP by 30 June each year. The SRP is intended to have a 10-year time frame to enable a longer term perspective to be analysed.
d. Significant changes to this revised Strategic Resource Plan 2013/14 are:
   - Council's Long Term Financial Plan indicates (LTFP) an increase in municipal rates and municipal charge collections of **7 percent** in the 2013/14 financial year (This may change as a result of Council's budget deliberations that are currently underway). This level allows Council to maintain existing service levels, fund a number of new initiatives and continue to allocate additional funds to renew the municipality's infrastructure;
   - Capital Expenditure based of the LTFP is **$6.1 million** in 2013/14; and
   - New borrowings based on the LTFP of $**0** million in 2013/14.
   - This section includes:
e. Purpose of the SRP;
f. Objectives of the SRP;
g. Financial strategic direction;
h. Key strategic directions

1.2 PURPOSE OF SRP

Council is required to prepare a SRP under Section 126 of the *Local Government Act (1989)*.

The purpose of the SRP is to:

- Establish a financial framework over the next 4 years to ensure Council's strategic objectives, as expressed in its Council Plan, are achieved;
- Provide an assessment of the resources (financial and non-financial) required to accomplish the objectives and strategies included in the Council Plan (non-financial resources are assumed to include human resources and Council's asset base, which are all referred to in various parts of the SRP);
- Establish a basis to measure Council's adherence to its policies and strategies; and

- Assist Council to comply with sound financial management principles, in accordance with the *Local Government Act (1989)* and to plan for the long-term financial sustainability of the municipality.

While compliance with the legislation can be achieved with the development of long-term (four-year) financial statements, the 10-year approach proposed by Council in the future will be more comprehensive.

A 10-year timeframe more fully supports strategic asset management as many of Council's assets have long lives.

Initially Council will plan within the legislative horizon of four years and will extend this to a 10 year timeframe within the next 12 months, via an upgrade of the 2011 Long Term Financial Plan.

The diagram below details the key strategic areas covered by the SRP and the integration required between Council's financial strategies.

Figure 1: Strategic Resource Plan – Key Strategic Areas

1.3 SRP OBJECTIVES

The 2013/14 SRP is intended to achieve the following objectives in the 10-year timeframe:

- Maintain the existing range and level of service provision and develop the capacity to grow and add new services;

- Maintain a strong cash position, ensuring Council remains financially sustainable in the long-term;
- Achieve operating statement surpluses with the exclusion of all non-operational items such as granted assets and capital income;
- Maintain debt levels below prudential guidelines;
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal government;
- Provide for rate increases that establish a funding level for a sustainability index of **100 percent**, including increasing funding for capital works (asset renewal, expansion, upgrade) and asset maintenance (Refer to page 33); and
- Ensure critical renewal is funded annually over the timeframe of the SRP.

1.4 STRATEGIC FINANCIAL DIRECTION

Council, as part of establishing its SRP, revises its borrowing strategy, asset management, capital investment, discretionary and statutory reserves, capital works program, the range and level of services provided and the revenue-raising strategy.

A number of strategic challenges remain ahead including renewing existing assets, continuing to provide an appropriate range and level of services to a growing community, maintaining a sound financial position and addressing the need for capital expansion.

The other related issues are the risks and liabilities that Council and the community face if Council does not invest in asset renewal at an adequate rate.

The SRP establishes the strategic financial direction for Council to meet the funding and investment challenges that lie ahead in the next 10-years.The SRP is prepared in conjunction with the Council Plan to ensure the affordability of activities included in the Council Plan.

A Glossary of Terms is attached in *Appendix B.*

Appendix C details Council's Standard Financial Statements which are an outcome of this SRP.

1.5 KEY STRATEGIC DIRECTIONS

The following table highlights the key strategies of this SRP. Each section includes detailed analysis to support the strategies. The key strategies provide direction for the preparation of the 2013/14 Budget.

Section	Strategic Direction
Section 3: Strathbogie Shire Financial Indicators	1. That **Strathbogie Shire Council** continues to benchmark with other Victorian Councils and those within the **Small Rural** category. 2. That the **Strathbogie Shire Council** Plan implements this SRP and achieves the 2013/14 Budget. 3. That **Strathbogie Shire Council** increase its operating surplus over the life of this SRP.

Section	Strategic Direction
Section 4: Service Provision and Planning	1. That **Strathbogie Shire Council** annually determines the range and level of service provision via the strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan (LTFP) leading to a rigorous analysis of organisational and financial capability. 2. That **Strathbogie Shire Council** annually determines the range and level of service provision via the strategic service planning framework incorporating a rigorous analysis of affordable and acceptable service levels.
Section 5: Capital Works	1. That **Strathbogie Shire Council** increases its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program. 2. That **Strathbogie Shire Council** initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in **Table 8 (Section 6.6 Condition Assessment)**, with the next priority on renewal, upgrade and expansion. 3. That any bids for new and upgrade of assets come from the Service Managers as arising from their Service Plans.
Section 6: Asset Management	1. That **Strathbogie Shire Council**, having established its critical renewal investment levels, completes detailed Service *and Asset Management Plans* for all classes of Council assets incorporating service level assessments. 2. That **Strathbogie Shire Council**, as part of the development of its Service and Asset Management Plans, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio. 3. That **Strathbogie Shire Council** provides as policy the annual allocation of funds to meet **100 per cent** of the communities infrastructure renewal needs before it elects to construct new assets, over the course of the 10 year LTFP.
Section 7: Long-term Borrowing Strategies	1. That **Strathbogie Shire Council** based on compliance with the State Government Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and 2. That **Strathbogie Shire Council** retains its debt levels at or below **Victorian Auditor General's Office (VAGO)** target levels for financial sustainability, over the life of this SRP.

Section	Strategic Direction
Section 8: Restricted Assets	1. That **Strathbogie Shire Council** builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least **$4.5 million** to **$6.2 million** in working capital to meet day to day needs. 2. That to ensure sufficient funds are available to meet operational needs, **Strathbogie Shire Council** retains a cash position of at least **$3 million** to **$4.7 million** after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, employee long service leave payments, security deposits etc.
Section 9: Rating and Other Revenue Strategies	That Strathbogie Shire Council: 1. retains capital improved value (CIV) as its valuation base; 2. the current rating strategy proposes a municipal charge that reduces to **10 percent** of rate revenue plus the municipal charge to ensure an equitable contribution towards the unavoidable fixed costs of **Strathbogie Shire Council**; 3. considers future increases based on EPA, regulatory and safety requirements and the need to sustain the Council's long term waste operations strategy; 4. the current rating strategy proposes in 2013/14, a 7 **percent** increase in total revenue for general rates and municipal charges and a 4 **percent** increase in total revenue for waste collection including funding the cost of disposal of domestic waste, recycling collection and the environment levy. 5. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils. 6. undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.
Section 10: Strategic Financial Plan	1. That **Strathbogie Shire Council** finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery through the annual budget process.

Table 1: Key Strategies– 2013/14

2. LINK BETWEEN STRATEGIC RESOURCE PLAN AND COUNCIL PLAN

2.1 Integrated Planning Framework

The Integrated Planning Framework details the relationship between the Council Plan, Service Strategies, Service Plans and the underlying assets that support the delivery of services.

The Framework also shows the relationships with the community and the funding sources.

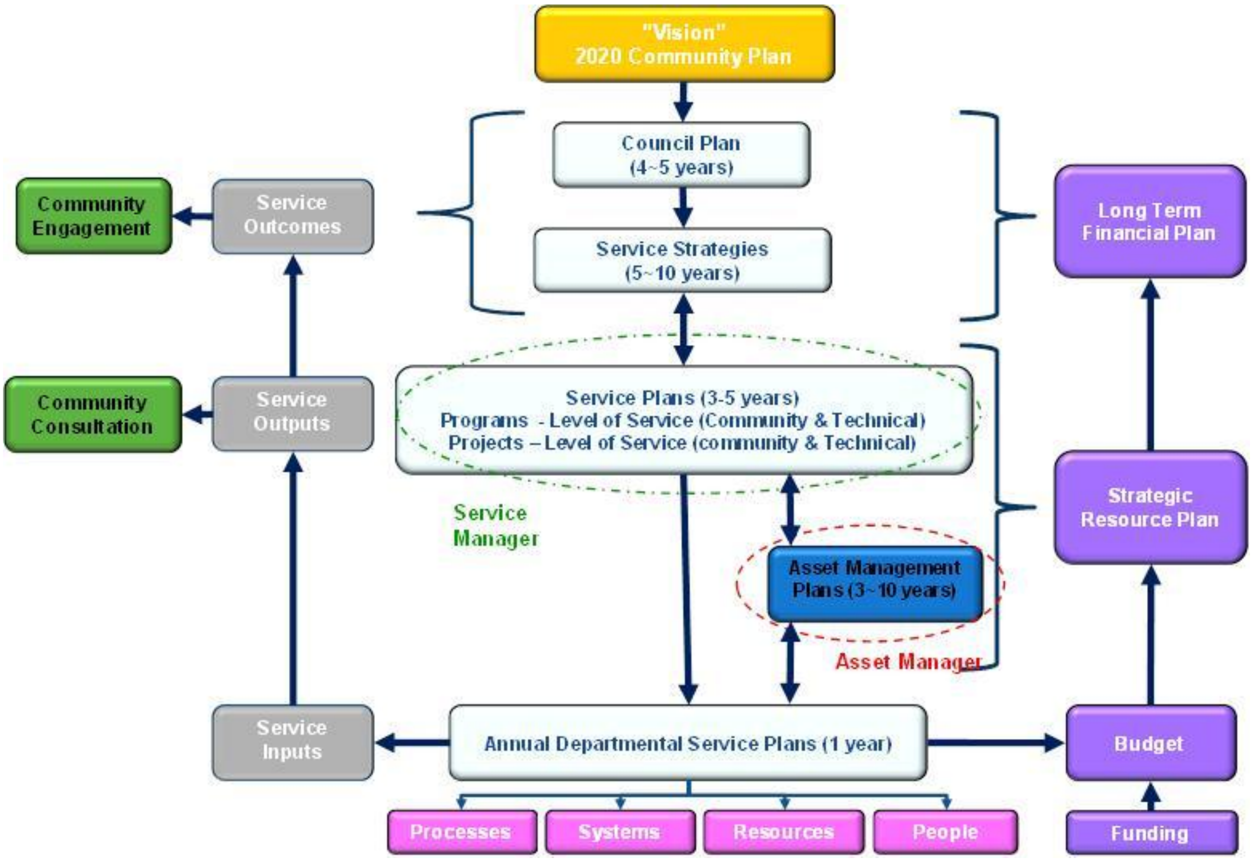


Figure 2: Integrated Planning Framework

The planning framework provides for the Council Plan strategies to be linked to Business Plan actions that are funded and resourced through the Annual Budget.

The organisation then measures and monitors performance and reports to internal and external stakeholders as required.

Council receives formal reports on a quarterly basis detailing progress against its Council Plan and on a monthly basis against the Annual Budget.

3. STRATHBOGIE SHIRE COUNCIL FINANCIAL SUSTAINABILITY

3.1 INTRODUCTION

Developing financial strategies for Councils is a difficult process.

- Is Council achieving a sufficient amount of revenue to provide services to the community?
- What should the target be in respect to resourcing expenditure on new assets (capital expenditure)?
- What is Council's targeted renewal investment and is this maintaining an acceptable level of service for the community?
- What is the range of services Council wishes to provide?
- What is an acceptable rate and charge increase?
- What is an acceptable level of debt?

Some of these answers may come from Prudential Guidelines established by industry bodies such as the Department of Planning and Community Development.

However, a great deal is left for each Council to determine.

How does Council gather appropriate data on which to base decisions about its financial future?

The use of financial indicators that assess the comparative financial position of each Council in Victoria provides a valuable source of information in establishing financial strategies.

These indicators highlight the relative financial strengths of each Council and uncover the opportunities that Councils may grasp for improvement.

The indicators are used to identify trends in financial sustainability.

This section includes:

- Benchmarking;
- Analysis of Council's financial sustainability from the perspective of the Municipal Association of Victoria (MAV) and the Victorian Auditor General (VAGO); and
- Operating surplus exclusive of capital income and abnormal items.

3.2 BENCHMARKING

The benchmarking program in this SRP is derived from financial data contained in annual reports from other Councils.

This benchmarking ensures data is comparable under the current regulations.

The State Government measures Councils' performance by benchmarking between Councils and establishes a number of Key Performance Indicators (KPIs) for each Council to use.

The KPIs have been derived from Councils' Annual Reports.

The number of Councils in each category is shown in the table below.

Category Description	Councils within Category
Inner Melbourne	**16**
Outer Melbourne	**15**
Regional Cities	**11**
Large Shires	**16**
Small Shires	**21**
Total	**79**

Table 2: Number of Councils in each Category– 2011/12

These key performance indicators are detailed within the relevant chapters of the SRP, and assist Council to compare its position to other **Small Rural** Councils.

3.3 ANALYSIS OF COUNCIL'S FINANCIAL SUSTAINABILITY

3.3.1 Financial Sustainability

The concepts most people use in their personal and business lives are basically the same as those that should be applied to local government; however, those concepts need some modification.

Councils are perpetual corporations that manage intergenerational community services and assets. Councils provide the legal framework by which communities own infrastructure and assets collectively.

Council notes the *Australian Local Government Association's* (ALGA's) definition of financial sustainability:

> ***"A Council's long-term financial performance and position is sustainable where planned long term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."***

It is against this definition then that the sustainability of Victorian Councils can start to be assessed.

Underlying Operating Position (Surplus/Deficit)

The underlying operating result as defined by the *Institute of Chartered Accountants* (2009) is a measure of the financial sustainability of a Council. Continuous underlying operating deficits lead to a loss in equity, reduction in asset base, drop in service standards over time and a deferral of costs to future generations.

The underlying operating result is the operational result (balanced, surplus or deficit) less gifted assets, developer contributions, asset revaluations, and write offs and impacts of asset sales. Capital income is further deducted on the grounds it represents an "unmatched" income (expenditure is not included) and it is a non-recurring income source.

Strathbogie Shire Council had an underlying operating deficit at **30 June 2012** of **$1.5 million**, with projections to reach a surplus position within 4 years.

Liquidity

The MAV assessment asserts a working capital ratio of **100 percent** is generally considered desirable. The analysis considers that Councils with working capital above **150 percent** may have the capacity to reduce long-term debt.

Council's working capital ratio of **208 percent** indicates no immediate concerns regarding liquidity.

Rate effort

The ability to increase rate revenue is a significant factor in determining whether Council is potentially at risk. Council's rating effort when benchmarked was above the average effort of the **Small Rural** group.

Cost and efficiency

Council is statistically an "average cost" Council. Council's employee cost as a percentage of total adjusted expenditure is **39 percent,** compared to **Small Rural** average of **39 percent.**

Capital expenditure measured as a percentage of adjusted total expenditure was **27 percent** compared to the **Small Rural** average of **30 percent.**

Rates affordability

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability.

The Australian Bureau of Statistics (ABS 2011) produces a set of social and economic indices known as SEIFA. The four indices in the set, which are based on census data, reflect the level of social and economic wellbeing in local government areas. SEIFA includes the following indices:

- **Advantage/Disadvantage**– The proportion of families with high incomes, people with a tertiary education and employees in skilled occupations. Low values indicate areas of disadvantage;
- **Disadvantage** – Derived from attributes such as income, educational attainment, unemployment and dwellings without motor vehicles;
- **Economic Resources** – Relating to family income, rent paid, mortgage repayments and dwelling size; and
- **Education and Occupation** – Covering the proportion of people with a higher qualification or those employed in a skilled occupation. The first three indicators have been used to reflect on the socio-economic status of local areas and therefore ability to bear significant increases in rates.

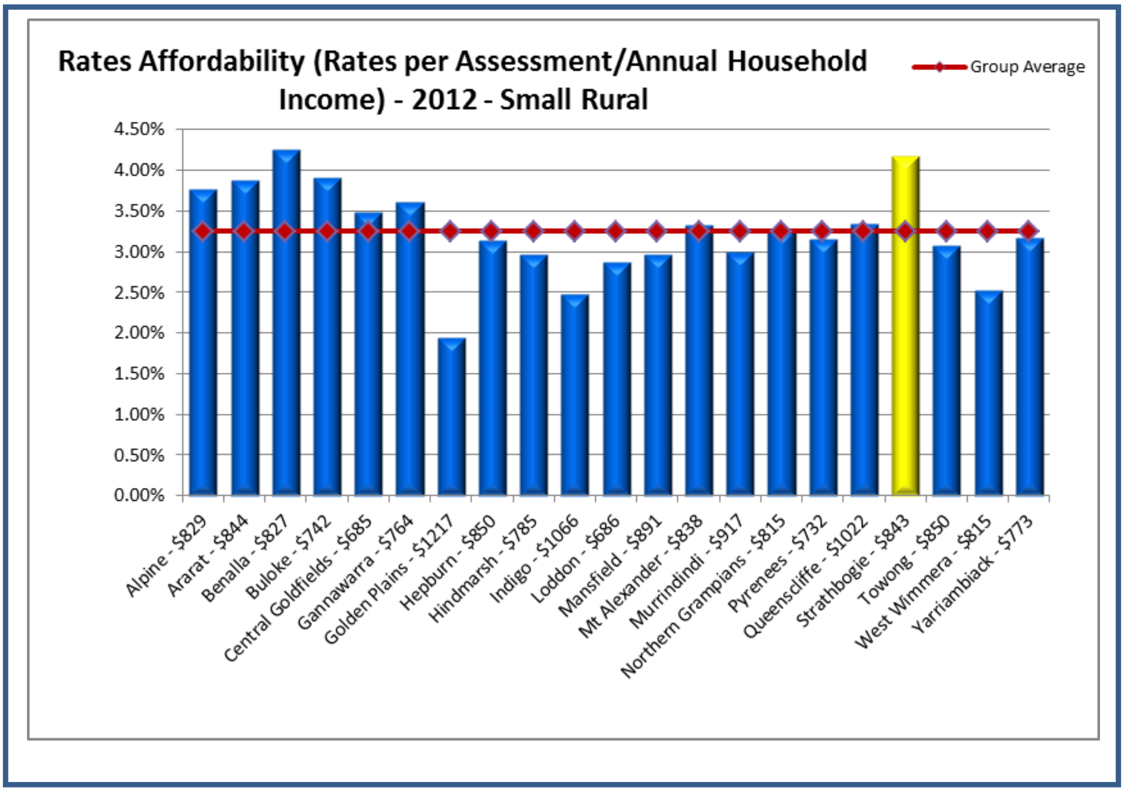


Chart 1: Rates Affordability Small Rural – 2011/12

The chart relects the amount of household income that goes to paying rates. Strathbogie Shire has high rates per assessment and a low annual household income.

Population growth

Population changes have a direct impact on Council costs. For example, population declines can result in higher unit costs of service delivery because of the fixed nature of some costs. Rapid population growth can place significant financial pressure on Councils to put new or expanded services in place. **Strathbogie Shire** is currently experiencing a gradual annual population increase, an impact therefore assessed as insignificant.

3.3.2 Victoria Auditor General

The Victoria Auditor General's Office (VAGO) in late 2012 prepared a report on Local Government which outlines for the first time a detailed analysis on the financial sustainability of Councils and Regional Library Corporations. Table 3 reflects Strathbogie Shire Council VAGO indicators of financial sustainability.

The 2011/12 Result compared to the five (5) year average for VAGO's indicators of Council viability are:

Indicator	Calculation	Description	Results 2011/12	Five (5) Year Ave	Actual Trend
Underlying result	Adjusted net surplus/total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term. Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustment	**13.68%**	**4.13%**	
Liquidity	Current Assets/Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio one or more means there is more cash and liquid assets than short-term liabilities	**2.08**	**1.76**	
Indebtedness	Non-current liabilities/own sourced revenue	Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues they generate themselves. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.	**29.16%**	**28.75%**	
Self-financing	Net Operating cash flow/underlying revenue.	Measures the ability to replace assets using cash generated by their operations. The higher the percentage, the more effectively this can be done	**35.14%**	**26.49%**	
Investment Gap	Capital Spend: Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option	**1.56**	**1.28**	
Renewal gap	Renewal and upgrade expenditure / Depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate. Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option	**1.36**	**0.82**	

Table 3: Strathbogie Shire Council VAGO Indicators of Council Viability

3.4 OPERATING SURPLUS EXCLUSIVE OF CAPITAL INCOME AND ABNORMAL ITEMS

One of **Strathbogie Shire Council's** long-term financial goals is to achieve an operational surplus without the inclusion of any capital income (against which there is no matching expenditure in the operating statement) and abnormal items such as granted assets.

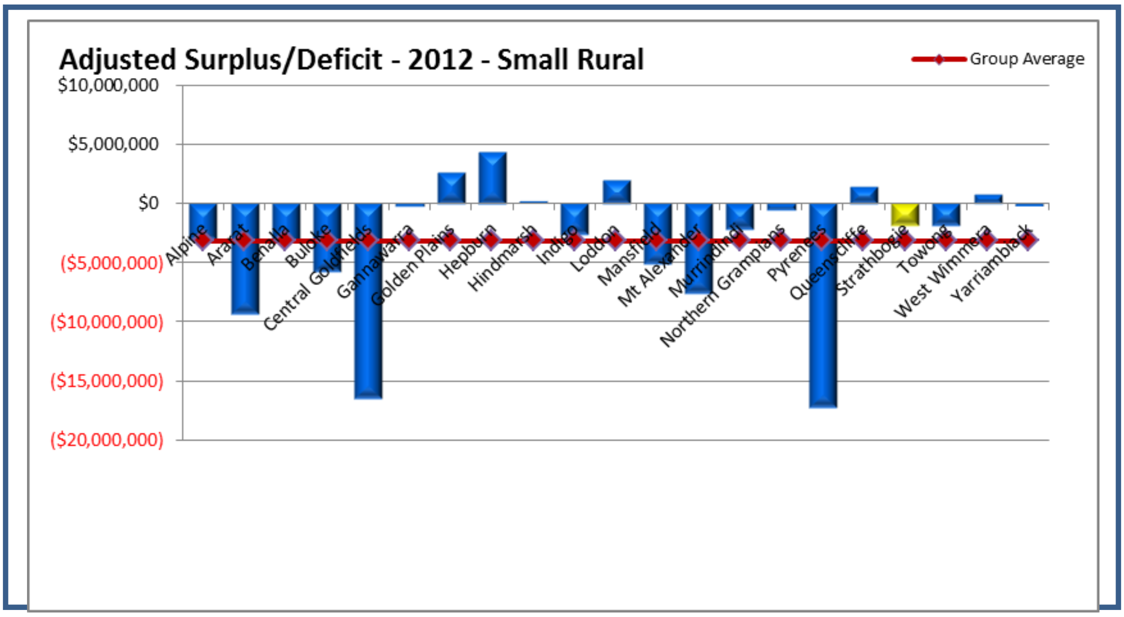


Chart 2: Adjusted Surplus / Deficit – 2011/12

Council's position of $1.5M compares favourably within the **Small Rural** category at **$3.1 million** for underlying operating deficit.

Strategic Direction

1. That **Strathbogie Shire Council** continues to benchmark with other Victorian Councils and those within the **Small Rural** category.
2. That **Strathbogie Shire Council** applies the outcomes of this SRP to the 2013/14Budget.
3. That **Strathbogie Shire Council** decreases its operating deficit over the life of this SRP to an adjusted operating surplus for 4 years.

4. SERVICE PROVISION AND PLANNING

4.1 INTRODUCTION

The range and level of services a Council should, or is capable of, or wants to provide is a complex question to consider.

It is critical that an overall understanding of the **Service Planning Framework** be considered within the context of the key service drivers including;

- Community expectations – ever changing and balanced against willingness to pay;
- Legislative requirements – e.g. health and environmental standards, regulations;
- Organisational - Strategic Mission and Objectives;
- Resources - availability of resources and funding; and
- Measurability - Tangible and intangible benefits.

This section includes:

- Local Government Service Planning
- Service Plans
- Service Reviews – 10 Key Steps
- Operating expenditure/revenue
- Growth of operating budget
- Service delivery analysis
- Service provision and planning

4.2 LOCAL GOVERNMENT SERVICE PLANNING

4.2.1 Strategic Service Planning Framework

The **Strathbogie Shire Council** acknowledges that there will always be many competing interests for scarce Council resources.

Adopting a service planning approach throughout the organisation will address many of the service delivery priorities and in turn community perceptions of Council performance.

The process will ensure that **Strathbogie Shire Council** remains committed to providing service levels to the community that are of acceptable standard and delivered in the most efficient and appropriate manner.

The Strategic Service Framework fits within the broader context of Council operations as illustrated in the figure over page:

Figure 3: Strategic Service Framework

4.3 INTRODUCING A SERVICE PLANNING APPROACH

4.3.1 Understanding Levels of Service

Understanding the Levels of Service approach within a Local Government context is important because it facilitates:

- support for the sustainability of current services;
- increasing satisfaction levels - minimising the gap between what is provided and what the community needs;
- transparent decision-making for good governance; and
- a robust relationship between Levels of Service and funding

The objective for the level of service process is to enable **Strathbogie Shire Council** to engage in community consultation efforts that focus on *Community* Levels of Service (as opposed to *Technical* Levels of Service).

Identifying key service criteria is important to the community for assessing service delivery of programs, projects and assets.

Typical examples are:

- Quality
- Quantity
- Function
- Design

- Amenity/Presentation
- Reliability
- Responsiveness
- Environmental/Safety
- Cost
- Legislative compliance

4.3.2 Structure of the Strathbogie Shire Council Service Plan

Service Plans define programs and projects that need to be undertaken to deliver the service and include specific information on service levels (Community & Technical), service cost, service targets, who provides the service, performance indicators and the reporting framework. (Currently service plans are only associated with assets).

The service plan identifies any new or upgrade of assets to support those services and reviews the outcomes of *Asset Management Plans* to ensure existing assets are appropriate for required service delivery. Actions are more specific and based on a 3-5 year horizon.

The completion of *Service Plans* (associated with assets only) has allowed Council to focus on the provision of services to the community in the most efficient and appropriate manner.

An example of Council's *Service Plan* structure is contained in the Figure below:

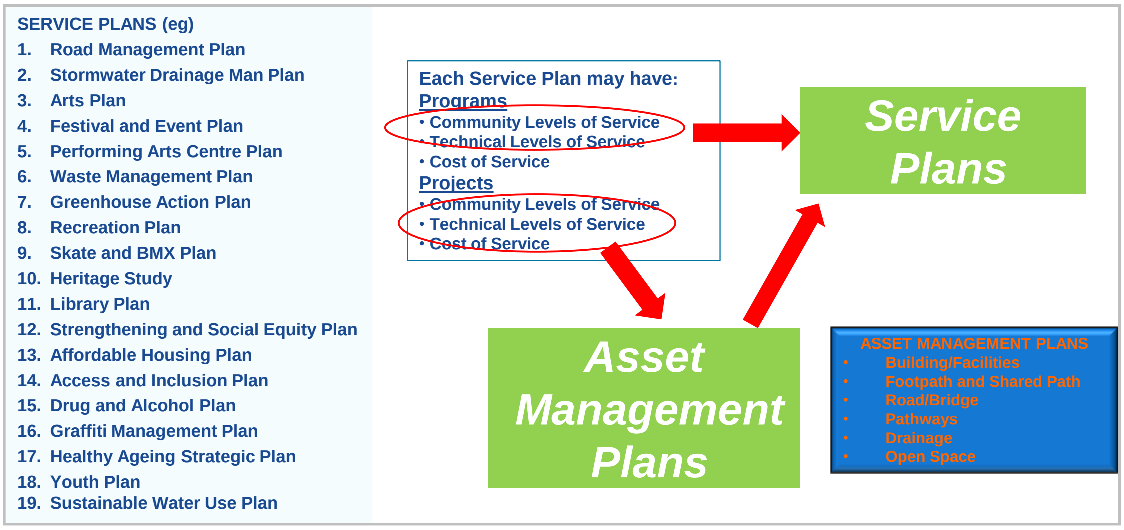


Figure 4: Service Plan Structure

4.4 Service Plan Process and the 10 Key Steps

4.4.1 Levels of Service Mapping

To introduce *Service Plans* the **Strathbogie Shire Council** must establish how it can best:

- Identify assets needed to support Service Plans (programs/projects);
- Develop a clearly defined performance measure for each Level of Service which must remain constant;
- Develop a target for each Level of Service which must be measureable and time bound;
- Be able to measure (quantify) current services and Level of Service including timely and accurate measurement of the cost of the service.

The figure below illustrates the process of mapping levels of service from initial community engagement and customer expectations through to the final process of performance review.

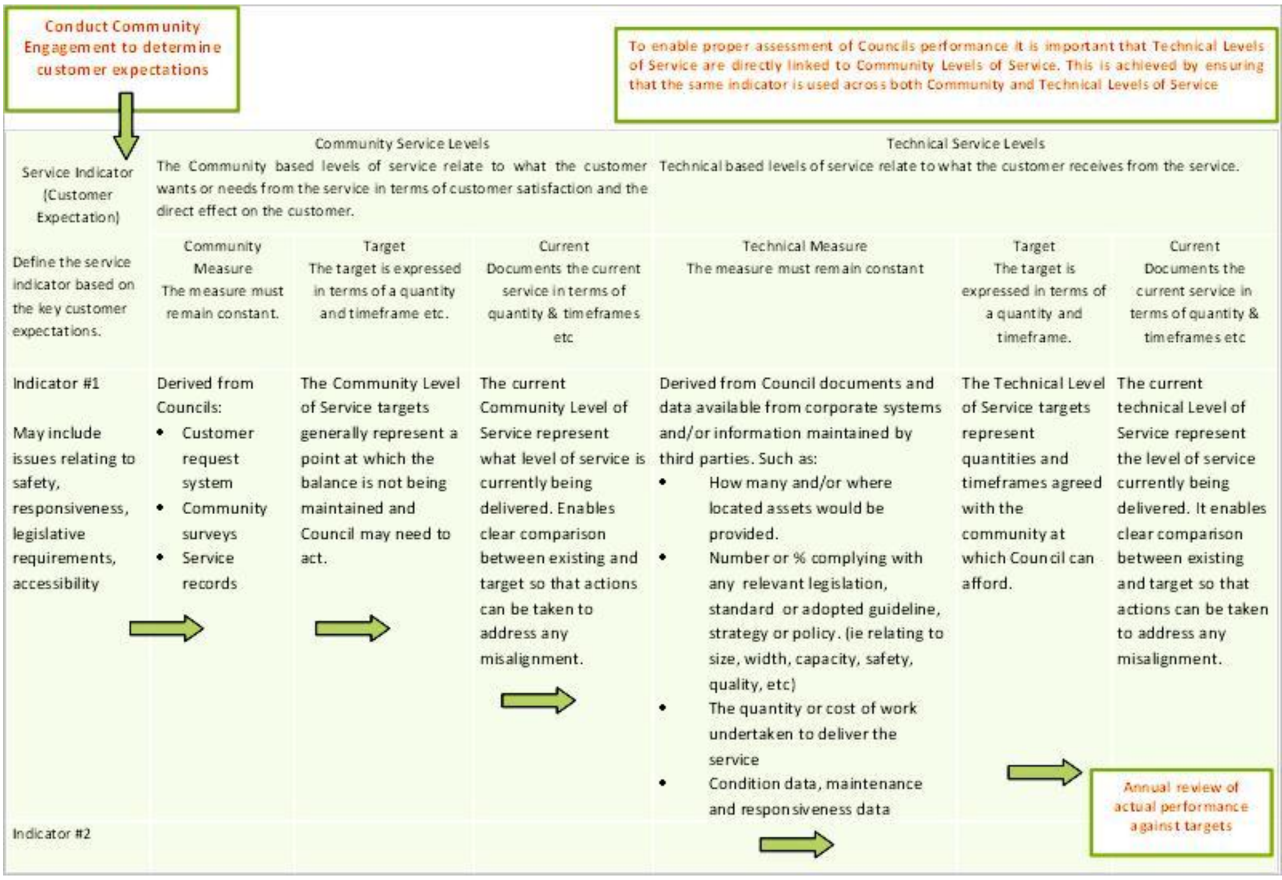


Figure 5: Levels of Service Mapping

4.4.2 Service Review Process – 10 Key Steps

Knowing the key steps in the service review process is fundamental to best practice, management, governance, administrative and financial systems that integrate and support the delivery of Council programs to the communities of **Strathbogie Shire Council**.

Council, over the next 3 years, will implement the following **10** step program to determine, document and evaluate service levels across all services.

STEP 1

Know current service details

a. Define (describe) current Service/s.
b. Document current Levels of Service (Community and Technical).
c. Identify the existing assets required to enable the services to be delivered.
d. Establish current Cost of Service (operational and asset [WOL] cost including maintenance and renewal).

STEP 2

Decide what your service needs are

a. Use existing or prepare a new *Service Strategy* (community consultation may be required).

b. Define proposed new Levels of Service (Community and Technical).
c. Identify the assets needed to deliver the new services (upgrade & new) and the design standards, level of presentation/amenity proposed.

STEP 3

Determine any misalignment (any under or over servicing both in terms of operational and asset).

STEP 4

Determine the cost of options to improve the alignment of services.

STEP 5

Prepare a robust Comparative Choice Decision Support Tool.

STEP 6

Engage with the community to resolve the Community Expectation – Available Funds trade off.

STEP 7

Revise Levels of Service.

Relevant Technical Levels of Service:

- Operational requirements to meet agreed community levels of service; and
- Asset in terms of defining service standards and the level of presentation/amenity of the assets

STEP 8

Revise Cost of Service projections, costs to Budget and LTFP.

STEP 9

Develop processes/mechanisms to measure level of compliance to service standards both in terms of community and technical.

STEP 10

Implement agreed Levels of Service.

4.4.3 Getting the 'Language' Right

Levels of Service - high level (qualitative) statements of intent linking corporate and strategic objectives with service delivery.

Customer Levels of Service - How the customer relates to the service provided, what the customer wants or needs from the service in terms of customer satisfaction and direct impact on the customer.

Technical Levels of Service - How the organisation provides the service and what the customer receives from the service.

Service Standards – Quantitative statements reflecting medium to long term service outcomes, (Customer and Technical Service Standards).

Service Targets – Operational outputs for day to day activities and performance.

4.5 Links to Strathbogie Shire Council Service Plans

The alignment of the key informing strategies (long term financial plan, service plans, asset plans and reporting frameworks) with the concurrent Council Plan preparation will allow the Council time to develop its overall direction and strategies and therefore to more effectively engage with the community.

The figure below illustrates the critical role of *Service Planning* in developing annual department operational plans, the **Strathbogie Shire Council** long term financial plan and the **Strathbogie Shire Council** budget incorporating the capital works program, renewal cash flow budget key performance indicators.

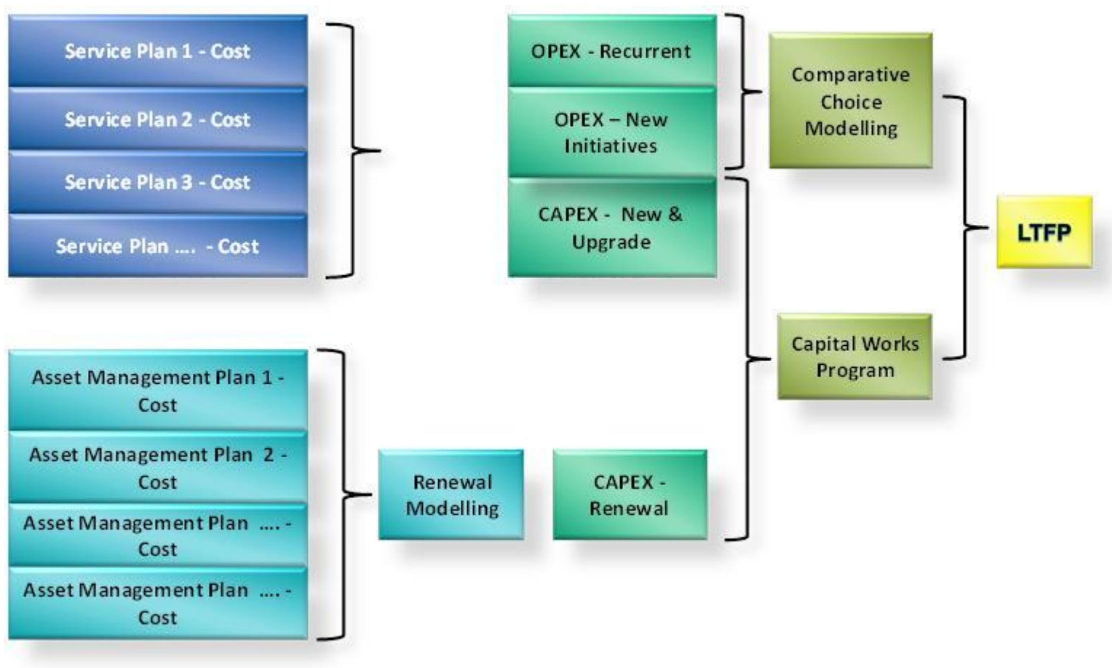


Figure 6: Links between Service Plans and Council Budgets

4.5.1 *Departmental Business/Operation Plans*

Departmental Business/Operation Plans define concise actions/plans and outline a department’s commitment for the next financial year.

They illustrate core functions, new initiatives, service improvements and assist with forward planning and resource allocation and demonstrate relationships and expectations, both from within and external to the organisation.

These Plans also provide a direct linkage to *Service Plans* and to implementing program and projects defined in the *Service Plans* with specific actions and budgets generally for years 1 and into year 2.

4.5.2 *Strathbogie Shire Council Budget*

Council’s operation includes provision of building, planning, economic development services, community services, infrastructure planning, operations and corporate support services including finance, information technology, asset management and organisation development.

The LTFP Model generated the key results and reports transferred to the **Strathbogie Shire Council** Budget 2013/14 document.

The *Capital Works Evaluation* subjects all proposed capital works to an objective business case analysis through a comprehensive condition assessment process so that the costs of the priority projects can be scored and the cost implications assessed via the integration capabilities of the Tool with the LTFP.

Council's operating costs and revenues for 2013/14 based on the LTFP are **$23.8 million** and **$26.3 million** respectively with forecasts for the next 4 years contained in Appendix C. The Capital Works Program is explained in more detail in Section 5.

4.5.3 Benchmarking Strathbogie Shire Council Financial Performance

When benchmarked to other **Small Rurals**, **Strathbogie Shire Council** is characterised by:

- underlying deficit that moves to an underlying surplus;
- Average overall operational costs (including employee costs) in comparison to Councils in the category;
- High rating effort;
- Low debt ratios; and
- Growing capital works program but insufficient priorities given to asset renewal causing widening of the infrastructure renewal gap in the short term. Council's LTFP address's this gap by 2017.

4.6 CONCLUSION

Managing financial sustainability and the range and level of services provided will remain an ongoing challenge. This work continues in the context of improving financial sustainability, linking infrastructure planning to service planning and resource constraints.

Council will clearly demonstrate clear and transparent decision making in allocating scarce resources whilst delivering the best service outcomes from amongst the many alternatives demanded by the community, a critical outcome of the recently adopted service planning framework.

Strategic Direction

1. That **Strathbogie Shire Council** annually determines the range and level of service provision via the strategic service planning framework incorporating annual budget, departmental operational plans, capital works evaluation and long term financial plan leading to a rigorous analysis of organisational and financial capability.
2. That **Strathbogie Shire Council** annually determines the range and level of service provision via the strategic service planning framework incorporating a rigorous analysis of organisational and financial capability incorporating (annual budget, departmental operational plans, capital works evaluation, asset management plans, long term financial plan and benchmarking).

5. CAPITAL WORKS PROGRAM

5.1 INTRODUCTION

The previous section discusses the long-term issues with respect to *Service Planning*.

It should be noted **85 per cent** of the capital expenditure is on renewal and 10 **per cent** on upgrade type projects in the draft capital works program for 2013/14.

The total capital program of $**6.1 million** based on the current LTFP, is composed of $**0.3** million in new assets and $**5.8** million in renewal and upgrade.

This section includes:

- Level and nature of capital works;
- Capital funding sources.

Capital expenditure represents **38.6 percent** of rate revenue in 2012/13.

The benchmark for 2011/12 capital expenditure levels by **Small Rural**'s is illustrated below:

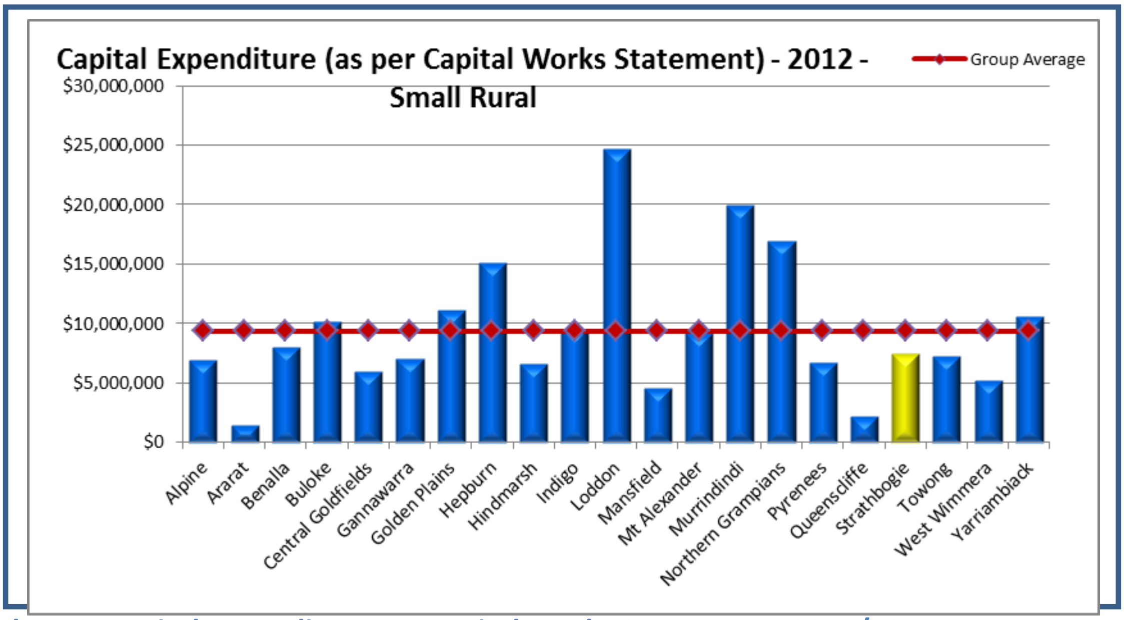


Chart 3: Capital Expenditure per Capital Works Statement – 2011/12

Capital expenditure per assessment is lower than average in 2011/12 at **$974** per assessment as compared to **$1,254** for the average **Small Rural**'s.

5.2 LEVEL AND NATURE OF CAPITAL WORKS

It is important that the asset management issues raised in the previous section inform the decisions taken in determining the capital works program.

Four key outcomes from the long-term financial plan will be:

- To maintain the critical renewal investment – chapter 6;
- To maintain agreed service levels as determined in Council's *Service Plans*- chapter 4;
- Maintain average condition where desired;
- Maintain the required critical renewal annuity; and
- Invest in new assets subject to principles espoused in chapter 4.

5.2.1 CAPITAL WORKS PROGRAM 2013/14 - 2017/18 – PARAMETERS

The following are the parameters against which the 2013/14 capital works program has been developed:

- Alignment to *Strategic Resource Plan* financial growth assumptions with respect to expenditure and revenue;
- Meeting agreed levels of service as per Council's Road Management Plan; and
- Priority provision for critical renewal investment, then capital renewal, capital upgrade with capital expansion the most discretionary.

In terms of the longer term program to 2023/24 the following parameters/assumptions apply:

- Large one-off projects flagged in subsequent years require accurate costing to be undertaken and their timing and priority finalised;
- Continue priority on renewal, followed by upgrade with expansion the most discretionary;
- Provide for expenditure growth required to level of sustainable renewal to meet the community's service level requirements (based on current *Asset Management and Service Plans*) by 2020/21;
- Income assumptions to remain conservative given they are less predictable; and
- Roads to Recovery income assumed to continue at current level spread across relevant projects within the Roads Program.

5.3 2012/13 CAPITAL INVESTMENT LEVELS

The 2012/13 capital works program by expenditure type is detailed hereunder:

Capital Expenditure Type	2012/13 $	2012/13 %
Renewal	**5.2 M**	**75**
Upgrade	**0.7 M**	**10**
Expansion	**0.9 M**	**15**
TOTAL	**6.9 M**	**100**

Table 4: Capital Works Summary – 2012/13

5.4 CAPITAL FUNDING SOURCES

The development of a 10-year capital works program will enable a precise cash flow budget to be developed.

This program will be completed during the 2013/14 financial year by Council's Engineering department.

External capital funding services include capital grants, developer contributions and special charges schemes.

Internal capital funding sources include land sales, asset sales, special charge schemes and general rates. The SRP forecasts capital funding sources conservatively.

5.5 CAPITAL WORKS EVALUATION PROCESS

The Council's *Capital Works Evaluation Tool* subjected all proposed capital works to an objective business case analysis so that the costs of the priority projects could be scored and the cost implications assessed.

If a project was required due to statutory obligations or had been approved by a **Strathbogie Shire Council** resolution it is automatically assigned the highest priority. If a project did not meet **Strathbogie Shire Council** objectives it is automatically assigned the lowest priority.

Projects that meet **Strathbogie Shire Council** objectives but are not required to meet statutory obligations or have not been approved by a Council resolution are assigned a prioritisation score based on the results of four equally weighted criteria:

- Financial,
- Council Plan objectives;
- Risk/Criticality; and
- Community Benefit.

Responsibility for the capital works **Business Case Analysis Process** is vested in the Council Infrastructure Directorate but scoring is overseen by the Cross Functional Reference Group with membership and terms of references endorsed by Council.

The results of the *Business Case Analysis* are contained in Table 5 over page:

	2013	2014	2015	2016	2017
Pavement (High Traffic) Urban - Link	44,930	43,364	37,481	35,505	36,978
Pavement (Low Traffic) Urban	0	2,000	5,664	7,560	9,677
Asphalt Seal (High Traffic) Urban	66	56	48	45	60
Asphalt Seal (Low Traffic) Urban	259	221	189	175	235
Spray Seal (High Traffic) Urban Link	90,000	70,000	80,156	72,537	67,546
Spray Seal (Low Traffic) Urban Access	116,126	113,719	102,748	93,441	85,535
All Kerbs	50,000	53,093	61,978	70,125	77,705
Pavement (High Traffic) Rural - Link	761,000	780,000	1,009,891	1,068,521	1,288,463
Pavement (Low Traffic) Rural Access	81,000	271,557	237,961	202,351	192,094
Spray Seals (High Traffic) Rural	1,003,330	1,010,530	1,010,530	784,908	674,082
Spray Seals (Low Traffic) Rural	375,948	280,000	279,052	218,301	194,018
Shoulder Pavement - not modelled	120,000	120,000	176,000	185,000	233,983
Unsealed Pavements P/M	47,516	45,282	47,434	48,454	50,628
Pavement (High Traffic) Unsealed -	157,903	149,785	139,138	129,367	129,624
Pavement (Low Traffic) Unsealed - P5	37,423	36,156	36,397	37,200	39,462
Concrete Pathways & areas	10,000	35,000	53,535	39,162	32,866
Brick Paved Pathways & areas	2,125	1,941	1,740	1,509	1,437
Sealed Pathways	10,000	17,247	18,585	18,720	18,850
All other Pathways - Gravel	275	265	300	307	306
Long Life Bridges & Major Culverts	50,000	100,000	106,883	92,807	95,137
Short Life Bridges	421,229	400,767	366,567	325,498	299,936
Pits	0	56	153	293	478
Pipes	0	430	1,174	2,252	3,678
Structure Long Life	0	0	3,376	9,637	18,335
Structure Short Life	46,882	60,866	113,580	176,969	243,718
Roof Structure	108,537	96,954	100,407	104,460	108,737
Mechanical Services	22,591	55,341	144,804	177,817	253,413
Building Fit Out	153,562	257,520	392,976	400,000	684,906
Street & Park Furniture, Boardwalk	0	0	0	6,233	16,055
Manicured Turf & Synthetic	0	21,000	92,858	67,404	222,365
Play Equipment	0	0	13,357	15,785	58,746
Bores,pumps and oval irrigation	0	0	0	0	481
fences, roads & hard stand areas	0	0	14,087	32,657	50,469
IT & Furniture	250,000	250,000	250,000	250,000	250,000
Plant	250,000	499,999	499,999	499,999	499,999
Motor Vehicle	350,000	350,000	350,000	350,000	350,000
	4,560,700	5,123,150	5,749,050	5,525,000	6,290,000

Table 5: Capital Works Projects Prioritisation

5.6 CONCLUSION

Council's capital works program underpins the needs and priorities as determined by Council's capital evaluation process.

It is the Council's challenge to develop *Service Plans* and *Asset Management Plans* that ensure the community's levels of service are met through the delivery of efficient and effective services.

Strategic Direction

1. That **Strathbogie Shire Council** increases its capital works commitment at levels that meet or exceed the targets established in this SRP, and develops a 10-year capital works program.
2. That **Strathbogie Shire Council** initially focuses capital works on maintaining a critical renewal level based on maintaining a minimum service level at levels indicated in Table 8 **(Section 6.6 Condition Assessment)**, with the next priority on renewal, upgrade and expansion.
3. That any bids for new and upgrade of assets come from the Service Managers as arising from their Service Plans.

6. ASSET MANAGEMENT

6.1 INTRODUCTION

Linking asset management to Council's strategic financial direction is fundamental to achieving the goal of long-term financial sustainability.

This section includes:

- Background to Council's total asset portfolio at 30 June 2013;
- Summary of fixed assets;
- Key questions to determine service level/investment;
- Sustainability index;
- Condition assessments;
- Strategic asset management; and
- Future asset management

6.2 BACKGROUND TO COUNCIL'S TOTAL ASSET PORTFOLIO AT 30 June 2013

Accounting for an asset requires the recognition of all costs associated with asset ownership including creation/acquisition, operations, maintenance, rehabilitation, renewal, depreciation and disposal.

This "life cycle" approach needs to be recorded at an individual asset level so all the costs of owning and operating assets are known and understood.

For accounting purposes assets are grouped into current and non-current assets. Current assets are cash or those assets that are considered to be readily convertible to cash. This asset grouping includes cash at bank, investment funds, stock on hand, debtors and land held for resale. The projected balance of current assets held by **Strathbogie Shire Council** at 30 June 2013 is projected to be **$4.8 million.**

Non-current assets consist of Council's debtor accounts not expected to be collected in the coming 12 months and Council's fixed assets. Fixed assets consist of land, buildings, plants, furniture, roads, drains, playgrounds and other similar infrastructure assets. The projected total value of fixed assets at 30 June 2013 is **$202 million**. The balance of this section will focus on the fixed assets and the management strategies that Council is pursuing.

6.3 SUMMARY OF FIXED ASSETS

Councils all over Australia are facing the problem of ageing assets in need of renewal. Many of these assets were not initially funded by Councils, but came by State and Federal government grants, developer contributions, or from a shift of responsibilities for State owned assets to Local Government.

In December 1998, the then Department of Infrastructure (DOI) undertook a Victorian Local Government *Infrastructure Study – Facing the Renewal Challenge.*

Council has subsequently increased its investment in renewal and maintenance to the present level.

Council's projected fixed assets and land held for resale at 30 June 2013 are detailed below:

Fixed Assets	WDV 30 June 2013 $000's
Property Plant and Equipment	
- Furniture & Equipment	2,000
-Land & Buildings	55,910
Infrastructure Assets	
-Roads	105,000
-Footpaths	5,500
-Bridges	7,250
-Drainage	17,750
-Works In Progress	7,250
-Waste Management	1,250
Total	201,910

Table 6: Fixed Assets and Land Held for Resale – 2012/13

Depreciation charges useful lives and the rate at which the economic benefits are consumed is reassessed following condition assessments and when general valuations are undertaken.

All changes to depreciation charges have been passed by Council's external auditor and reported to Council's *Audit Committee* prior to being adopted by Council.

Council's depreciation charges as a percentage of its total assets are benchmarked and depicted in the following graph:

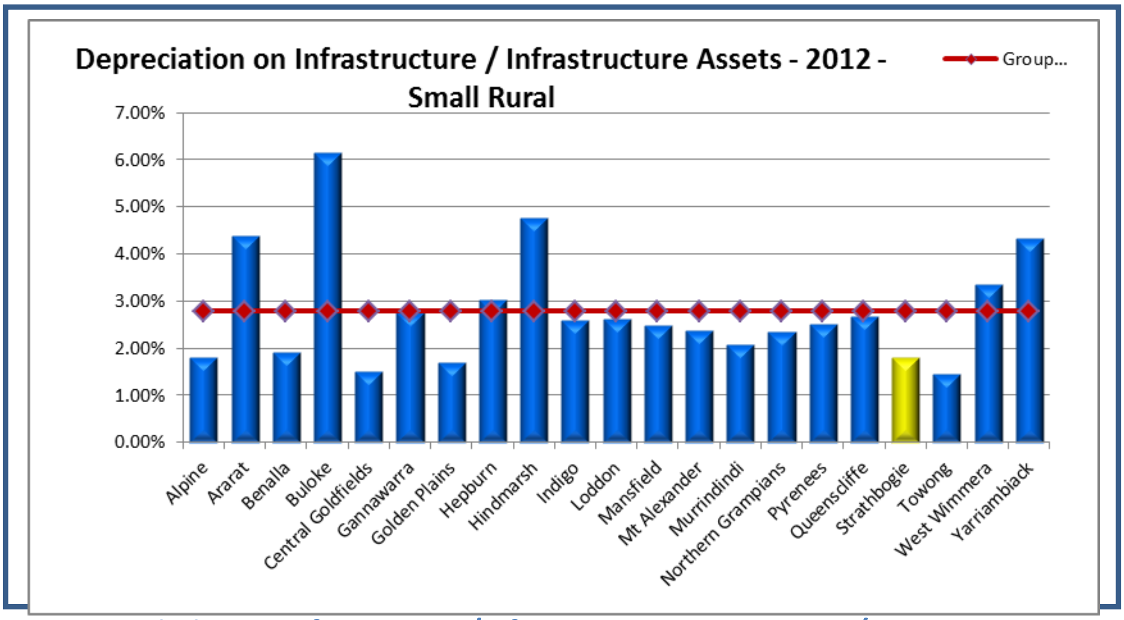


Chart 4: Depreciation on Infrastructure/Infrastructure Assets – 2011/12

6.4 KEY QUESTIONS TO DETERMINE SERVICE LEVEL/INVESTMENT

The key questions with respect to infrastructure investment are detailed below:

1. How much does it cost ratepayers to retain the current infrastructure portfolio, that is, what is the long-term average cost of renewal plus maintenance?
2. How much will need to be spent in the short term (next 10 years) relative to the renewal expenditure invested in the recent past?
3. How much more management effort (financial and operational) will be required of Council as its assets age?
4. What assets are at the "at risk" phase (intervention level) of their life cycle and will ultimately result in their being unserviceable and unsafe?
5. What outcomes would the community and Council like to achieve with respect to asset upgrades? For example, would Council like to see an extension to the sealed road network, or playground network?
6. Are the Council assets providing the level of service expected by the community?
7. What assets should the community "manage for decline" – public halls, buildings, bridges, roads?

6.5 SUSTAINABILITY INDEX

The *Department of Infrastructure's* (DOI's) "infrastructure study" calculated a sustainability index for each Victorian Council. The sustainability index indicates the extent of the gap between a Council's current investment in asset renewal and the required level of investment to ensure the asset remains serviceable for its useful life. This is determined largely by historical factors and the long term sustainable level of costs for the existing assets. The index measures future management requirements of each Council.

Type of Expenditure	Definition	Purpose/Example
Maintenance	Expenditure on an asset that maintains the asset in use, but does not increase its service potential or life.	Life extension: Extending asset lives by repair, reducing average annual consumption costs and renewal rates, eg. Repairing a single pipe in a drainage network or a pothole.
Capital Renewal	Expenditure on an existing asset or a portion of an infrastructure network which returns the service potential, or extends the life of the asset, to its original potential.	Retains an existing service level, e.g. Re-sheeting a road reseals, resurfacing an oval.
Capital Upgrade	Expenditure on upgrading the standard of an existing asset to provide a higher level of service, or to extend the life of the asset beyond its original standard.	Increases the quality of service provided to ratepayers or provides new services, eg. Widening the pavement of a sealed area of an existing road.
Capital Expansion	Expenditure on extending an infrastructure network at the same standard enjoyed by existing residents to a new group of users.	Extends services to newly developing areas of the Shire where there are new ratepayers, eg. Extending a road or drainage network, new pre-school.
**The average annual asset consumption is a measure of the asset consumption costs being incurred today. To the extent that they are not funded by today's ratepayers, the annuity becomes one for future generations*		

Table7: Sustainability Index - Definitions – 2013/14

The *sustainability index* is an accounting measure based on the difference, expressed as a percentage, between Council's annual depreciation charge and renewal annuity.

Strathbogie Shire Council's Sustainability Index as at 30 June 2012 was **148** per cent which means that Council should be spending an extra 48% on renewal expenditure, than it currently is. Council's aim which is reflected in the LTFP, is to have an index of 100% by 2017 (This would mean that Council is spending an equivalent to the depreciation of its assets in any given year).

The sustainability Index (renewal) indicates the extent to which current ratepayers are contributing to the assets they are now consuming.

6.6 CONDITION ASSESSMENT

Monitoring asset condition and performance relates to the ability of the asset to meet targeted levels of service.

Asset condition reflects the physical state of the asset and the functional level of service it is capable of providing.

Monitoring asset condition and performance throughout the asset life cycle is important in order to identify underperforming assets or those which are about to fail – that is, assets at the *critical renewal* level where if reinvestment is not funded the cost of future renewal will exponentially increase along with the risk of the asset being below accepted safety standards .

Strathbogie Shire Council has developed its *Asset Management System* to position Council to readily monitor asset condition and performance and to:

- Identify those assets which are under performing;
- Predict when asset failure to deliver the required level of service is likely to occur;
- Ascertain the reasons for performance deficiencies; and
- Determine what corrective action is required and when (maintenance, rehabilitation, renewal).

The *Asset Management System* not only records asset condition and asset defects/inspection details; it is also capable of providing financial management and year-end accounting and valuation data.

Priority is on funding the annual renewal annuity based on predetermined service levels which are shown in table 8 below.

Table 8 shows the intervention levels that Council applies to assets under its control, via the Road Management Plan. These standards are adopted by Council and reflected in the current Council Road Management Plan.

Activity/Tolerable Defect intervention level:	Road classification:					
	Fire access:	Class 0:	Class 1:	Class 2:	Class 3:	Class 4:
Road defect inspection freq:	12 mth	12 mth	12 mth	6 mths	2 mths	2 mths
Bridge inspections (level 1):	12 mths	12 mths	12 mths	12 mths	6 mths	6 mths
All materials & waterway	After major storms					
Bridge Inspection Response						
Damage affecting structural performance:	1 mth	1 mth	1 wk	1 wk	2 days	2 days
Bridge signage/railing/drain cleaning	12 mths	12 mths	6 mths	6 mths	3 mths	3 mths
Sealed surfaces:						
Pothole:	n/a	n/a	>300mm dia and >100mm deep	>300mm dia and >100mm deep	>300mm dia and >100mm deep	>300mm dia and >100mm deep
pothole repair response time:	n/a	n/a	2 mths	1 mth	14 days	14 days
Deformation (3m straight dge):	n/a	n/a	> 100mm	> 100mm	> 100mm	> 100mm
deformation repair response time:	n/a	n/a	2 mths	1 mth	14 days	14 days
Rutting (under 1.2m straight edge):	n/a	n/a	> 100mm	> 100mm	> 100mm	> 100mm
rutting repair response time:	n/a	n/a	2 mths	1 mth	14 days	14 days
Edge break: (fretting)	n/a	n/a	> 300mm	> 300mm	> 200mm	> 200mm
edge break repair response time:	n/a	n/a	2 mths	2 mths	14 days	14 days
Sealed road shoulder drop-off:	n/a	n/a	> 100mm	> 100mm	> 100mm	> 100mm
shldr drop-off repair response time:	n/a	n/a	2 mths	2 mths	14 days	14 days
Shoulder rutting:	n/a	n/a	> 100mm	> 100mm	> 100mm	> 100mm
shldr rutting repair response time:	n/a	n/a	2 mths	2 mths	14 days	14 days
Unsealed surfaces:						
Rough surface:	see note 2	see note 2	see note 3	see note 3	see note 4	see note 4
rough surface repair response time:	n/a	n/a	6 mths	6 mths	3 mths	2 mths
Unsealed road crossfall:	see note 2	see note 2	1% < xfall < 8% on >20% of road	1% < xfall < 8% on >20% of road	1% < xfall < 8% on >20% of road	1% < xfall < 8% on >20% of road
crossfall repair time:	n/a	n/a	6 mths	6 mths	6 mths	3 mths

Table 8 Intervention Levels

Council has determined that no asset's condition will be allowed to go below these levels as the cost of renewal significantly increases and the asset's functionality, safety and ability to provide its intended service level is compromised.

Council has largely collected condition data for all of its major asset categories and is now in a position to commence detailed *Service Plans* and *Asset Management Plans*.

The benefits of knowing the current condition and performance (level of service) an asset provides are:

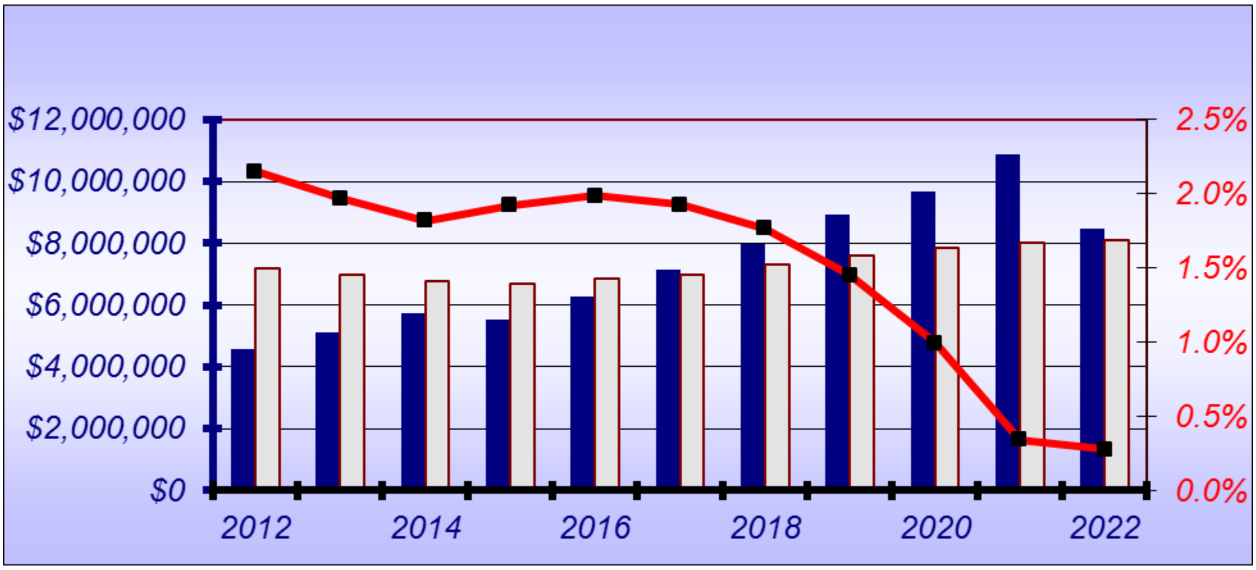
- Ability to plan for and manage the delivery of the required level of service;
- Avoidance of premature asset failure, leaving open the option of cost-effective renewal;
- Managing risk associated with asset failures;
- Accurate prediction of future expenditure requirements; and
- Refinement of maintenance and rehabilitation strategies.

Council, as asset managers, need to be able to assess the relative merits of rehabilitation/renewal/replacement options and identify the optimum long-term solution through a decision related to levels of service.

Council has strategically determined an affordable level of service to manage the current condition profile.

The benefit of that knowledge now is that management processes can commence across the entire asset portfolio.

The following graph depicts the predicted level of renewal expenditure required across all asset categories for **Strathbogie Shire Council** until 2022.



---- % asset base above/below intervention ---- Renewal Expenditure ---- Renewal Required

Chart 5: Proposed / Predicted Renewal Expenditure Chart – 2012/13

Projected Service Levels - Key Asset Classes

Strathbogie Shire Council's sustained level of growth and the significant levels of gifted assets coming onto the asset data base mean that the costs to renew the assets in future years will increase significantly. The process to model the predicted renewal demand resulting from the impact on the asset base of the developer contributions will be updated annually via the *Moloney Asset System*.

Current results derived from the **Strathbogie Shire Council** Long Term Financial Plan are summarised in the following Charts.

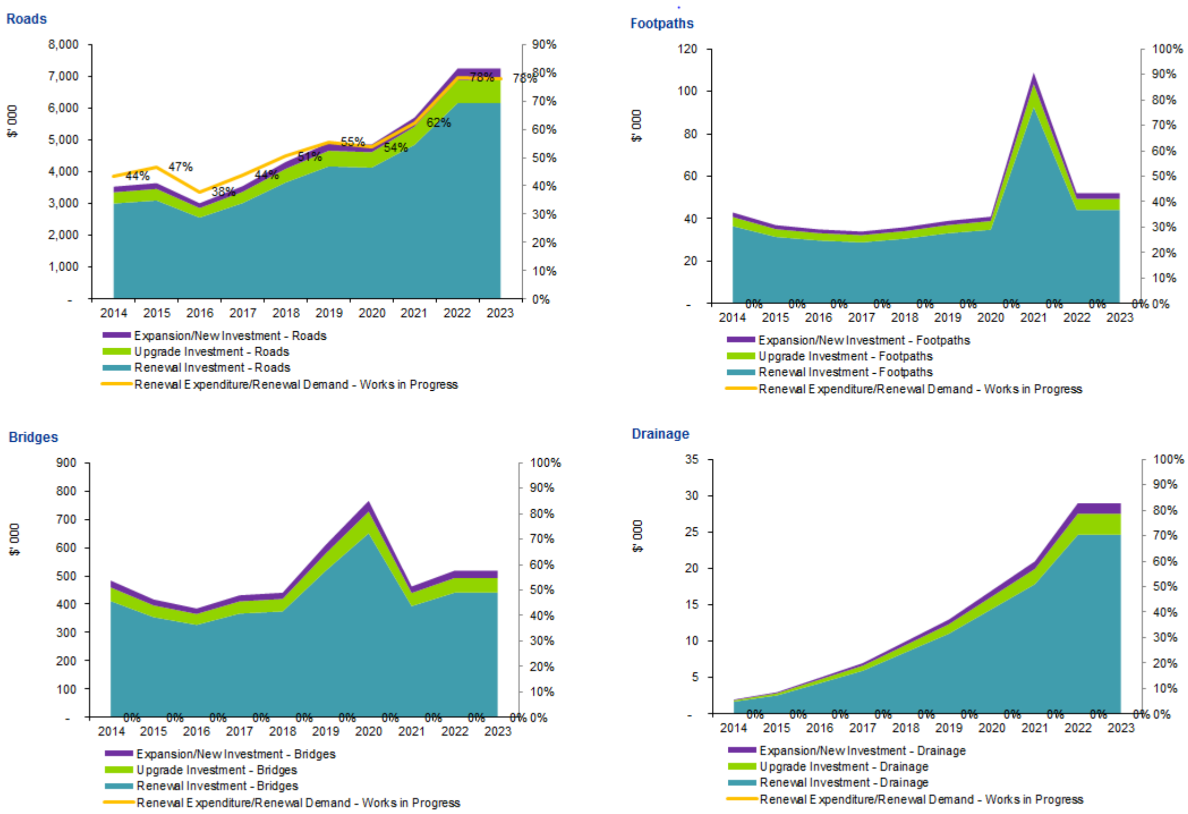


Chart 6: Predictive Modelling - Buildings, Roads, Footpaths and Bridges

Strathbogie Shire Council will aim to ensure that its assets are relevant to the community, as retention of unused assets places a financial burden on the community. **Strathbogie Shire Council's** *Strategic Resource Plan* is transitioning to focus on funding a "service level" that prioritises critical renewal and maintains average condition to meet community expectation.

To facilitate this process, **Strathbogie Shire Council** will engage in consultation with key stakeholders including discussions on the key questions with respect to infrastructure investment and service levels, as detailed in Section 5.

Council now has this information for all of its asset categories and is now positioned to strategically consider these issues.

6.7 STRATEGIC ASSET MANAGEMENT

Council reviews its *Asset Management Policy* on a triennial basis.

Other major elements are the Asset Management Strategy which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives.

Asset Management Plans are subsequent components where long-term plans (10-years and beyond) outline renewal requirements for each asset category.

The table below explains the objectives and typical contents of these documents:

Asset Management Strategy	Asset Management Plans
Specific actions to be undertaken by Council in order to improve or enhance asset management capability and achieve specific strategic objectives.	Long-term plans (usually 20 years or more for infrastructure assets) that outline the asset activities for each service area.
Develops a structured set of actions aimed at enabling improved asset management by Council.	*Outlines actions and resources to provide a defined level of service in the most cost effective way.*
• A description of the current status of asset management practices (processes, asset data and information systems). • Organisation's future vision of asset management. • A description of the required status of asset management practices to achieve the future vision. • Identification of the gap between the current status and the future vision (a "gap analysis"). • Identification of strategies and actions required to close the gaps, including resource requirements and timeframes.	• A summary of Council's strategic goals and key asset management policies. • Definition of levels of service and performance standards. • Demand forecasts and management techniques. • Description of the asset portfolio. • A broad description of the lifecycle management activities for operating, maintaining, renewing, developing and disposing of assets. • A cash-flow forecast. • Key asset management improvement actions including resources/timeframes.

Table 8: Asset Management Plan Objectives & Document Content

Council has reached the point where it has identified and funded its critical renewal – no asset's condition goes beyond **those shown in Table 8 (Section 6.6 Condition Assessment)**. Council is now in a position to analyse its condition profile and determine and understand the cost of a predetermined service level.

Alternatively Council may allow some assets to degrade in condition, freeing up funds to improve the level of service for other assets.

6.7.1 Community Consultation

Council aims to ensure its assets are relevant to the community, as retention of unused assets places a financial burden on the community. Council's *Strategic Resource Plan* is presently focused on funding a "service level" that prioritises critical renewal and maintains average condition to meet community expectation.

The challenge ahead is to understand the community's expectations and provide service level and funding options to accommodate these. The target for Council in 2013/14will be to engage Council and the community in discussions about levels of service to provide the opportunity for differing service levels to be costed and reviewed.

Sound Asset Management is:

- Knowing what assets we own (Asset Register);
- Understanding the condition and expected lives of our assets;
- Knowing what 'levels of service' customers want;
- Having processes in place to establish priorities and allocate funds;
- Knowing the long-term funding requirements associated with our assets; and
- Having documented *Asset Management Plans* detailing levels of service will be a challenge during 2013/14.

The first issue is to determine the outcomes the community wants to achieve – what is the strategy?

The next issue is what services, including their performance levels, are required to meet the community outcomes?

Finally what infrastructure or assets are required to support the service level?

Too often Council starts focusing on the asset rather than on the outcome/service level it requires.

A review of this nature may result in assets no longer being required to support community outcomes.

6.7.2 Asset Management Working Group

The *Asset Management Working Group (AMWG)* is a cross-functional professional team with representatives from all Council departments. The purpose of the AMWG is to oversee the decision-making process with respect to the direction of asset management and to ensure the **Strathbogie Shire Council** continues to develop total asset management across the organisation.

The Working Group's Terms of Reference include:

- Guiding Council's overall Asset Management Program;
- Setting priorities for system development while keeping in mind the legislative obligations of Council (e.g. Strategic Resource Plan and Council Plan etc.);
- Facilitating the implementation of appropriate asset management systems and asset management plan development; and
- Reviewing asset management resource requirements.

There is still a deal of work to be done on recording and developing *Service Plans* and *Asset Management Plans*.

Strategic Direction

1. That **Strathbogie Shire Council**, having established its critical renewal investment levels, completes detailed *Service* and *Asset Management Plans* for all classes of Council assets incorporating service level assessments.
2. That **Strathbogie Shire Council**, as part of the development of its *Service Plans*, consults with the community to determine how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio.
3. That **Strathbogie Shire Council** adopts as policy the annual allocation of funds to meet **100 per cent** of the communities infrastructure renewal needs before it elects to construct new assets.

7. LONG-TERM BORROWING STRATEGIES

This section includes:

- Measuring what level of debt is appropriate;
- Loan borrowings policy;
- Financial indicators;
- Prudent debt level; and
- Council's current and projected debt portfolio.

7.1 Measuring which level of Debt is Appropriate

Deciding on a prudent debt level is a difficult task.

Each Council is different and the level of debt that is appropriate for **Strathbogie Shire Council** may not be acceptable for another Council.

The following factors are seen as important issues for consideration by **Strathbogie Shire Council**:

- level of debt servicing as a proportion of rate revenue;
- ability to raise revenue in addition to rates;
- level of realisable assets to support the indebtedness;
- achieving the right mix of capital works and debt commitments;
- growth rate of municipality;
- community needs; and
- demographics

The table below highlights the relative debt levels of Councils within the **Small Rural** grouping at 30 June 2012. **Strathbogie Shire Council's** relative debt level is also shown.

By comparing a number of different debt ratios within the Council grouping, **Strathbogie Shire Council** can begin to consider what level of debt is appropriate.

The table below confirms that **Strathbogie Shire Council** is currently higher than average and higher than the median[1] across most of the debt indicators within the **Small Rural** grouping.

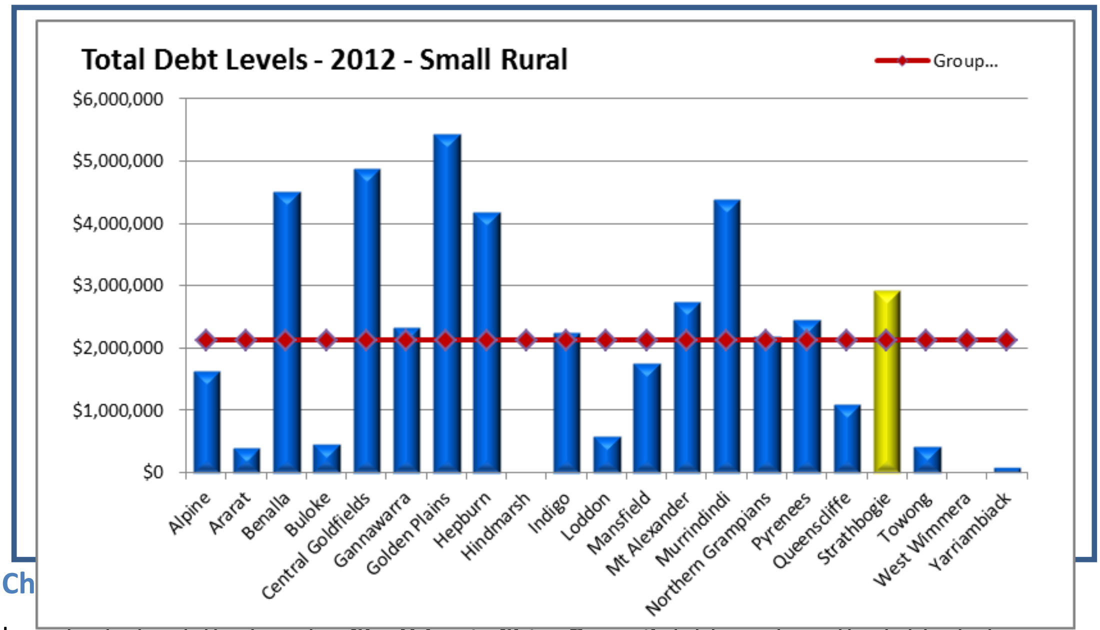
Council	Debt Servicing / Rate Revenue	Debt Commitment Ratio	Debt Per Capita	Debt Commitment / Assessment	Total Debt	Total Debt / Rate Revenue
Alpine	4.68%	2.51%	$125	$41	1.616.000	12.04%
Ararat	4.68%	0.53%	$33	$9	394.000	3.33%
Benalla	4.68%	9.19%	$315	$168	4.508.000	33.88%
Buloke	4.68%	1.51%	$64	$23	445.000	4.77%

[1] *The **median** is described as the numerical value separating the higher half of a sample*

Council	Debt Servicing / Rate Revenue	Debt Commitment Ratio	Debt Per Capita	Debt Commitment / Assessment	Total Debt	Total Debt / Rate Revenue
Central Goldfields	4.68%	5.39%	$381	$67	4.877.000	48.79%
Gannawarra	4.68%	5.15%	$203	$74	2.325.817	24.73%
Golden Plains	4.68%	16.6%	$286	$203	5.440.000	44.27%
Hepburn	4.68%	5.15%	$279	$71	4.185.000	28.58%
Hindmarsh	4.68%	0.31%	$0	$4	0	0.00%
Indigo	4.68%	5.16%	$138	$71	2.238.000	19.70%
Loddon	4.68%	2.17%	$73	$22	579.000	7.49%
Mansfield	4.68%	5.68%	$219	$78	1.750.000	17.70%
Murrinidindi	4.68%	7.57%	$321	$104	4.377.000	32.33%
Strathbogie Shire	4.68%	4.80%	$290	$88	2.922.000	22.54%
Towong	4.68%	1.72%	$67	$23	421,000	7.19%
West Wimmera	4.68%	0.00%	$0	$0	0	0.00%
Average	**4.68%**	**4.68%**	**$182**	**$67**	**2,124,753**	**18.96%**
Median	**4.68%**	**5.15%**	**$179**	**$71**	**2,184,000**	**17.70%**

Table 9: Council Comparison Debt Levels within Small Rural Group – 2011/12

In terms of total debt levels, **Strathbogie Shire Council** is currently more than the **Small Rural** grouping, refer to the chart below.



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In order to track the trend in **Strathbogie Shire Council** debt position, the table below indicates that debt levels will decrease by **$0.55 million** from 30 June 2011 to 30 June 2014 (based on the LTFP), the end of the first year's budget developed as part of the SRP.

As a result of the decrease in loan liability, relative debt ratios for the **Strathbogie Shire Council** will remain well within State Government Prudential Guidelines throughout the life of the SRP.

Debt Type	Term	Matures	Position at 30 June 2011 $'000s	Forecast at 30 June 2012 $	Forecast Position at 30 June 2013 $	Budget 30 June 2014 $
Loans			**2,959**	**2,922**	**2,988**	**2,406**

Table 10: Council's Interest Bearing Liabilities

7.2 Borrowing Assessment Policy

Strathbogie Shire Council assessed its capacity to borrow against the Victorian State Government's Prudential Guidelines.

The administration of the Local Government sector's borrowing involves:

- The collation of the sector's borrowing requirements through an annual survey;
- The assessment of individual **Strathbogie Shire Council's** borrowings; and
- Recommendation to the *Department of Treasury and Finance* (DTF) of the aggregate net new borrowing requirement of the sector.

All borrowings by individual Councils are assessed under a borrowings assessment policy adopted by the Local Government Division.

The policy identifies key areas of financial management with certain thresholds that are required to be met.

Detailed below is **Strathbogie Shire Council's** current and projected performance on a number of the financial indicators which are necessary for borrowing approval by State Government.

Area	Financial Indicator	Threshold (Prudential Guidelines)	Position 2011/12	Forecast 2012/13	Budget 2013/14
Liquidity	Current Assets to Current Liabilities	**1.5**	**2.08**	**1.14**	**1.25**
Debt Exposure	Total liabilities over total realisable assets	**50%**	**66%**	**48%**	**37%**
Debt Servicing	Debt Servicing Costs as a % of Total Revenue	**5%**	**1.2%**	**1.1%**	**0.8%**
Debt Commitment	Debt Servicing and Redemption Costs as a % of Rate Revenue	**10%**	**5%**	**7.5%**	**4.7%**

Table 11: State Government Prudential Guidelines– 2011/12 to 2013/14

Strathbogie Shire Council is well within the State Government Prudential Guidelines as at 30 June 2014.

7.3 What do the Financial Indicators Mean?

The graphs below detail the previously mentioned financial indicators and present the Council's position graphically.

The threshold detailed against each indicator is the minimum level Council must meet in order to achieve approval to borrow from the State Government.

To encourage longer term planning by Councils, the framework also includes an assessment of reasons for the new borrowings. This rationale is explained in the Council's policy, which is to fund long term intergenerational assets from loan funds to ensure intergenerational equity.

Strathbogie Shire Council's forecast is within the State Government prudential guidelines at June 30, 2012 for most indicators.

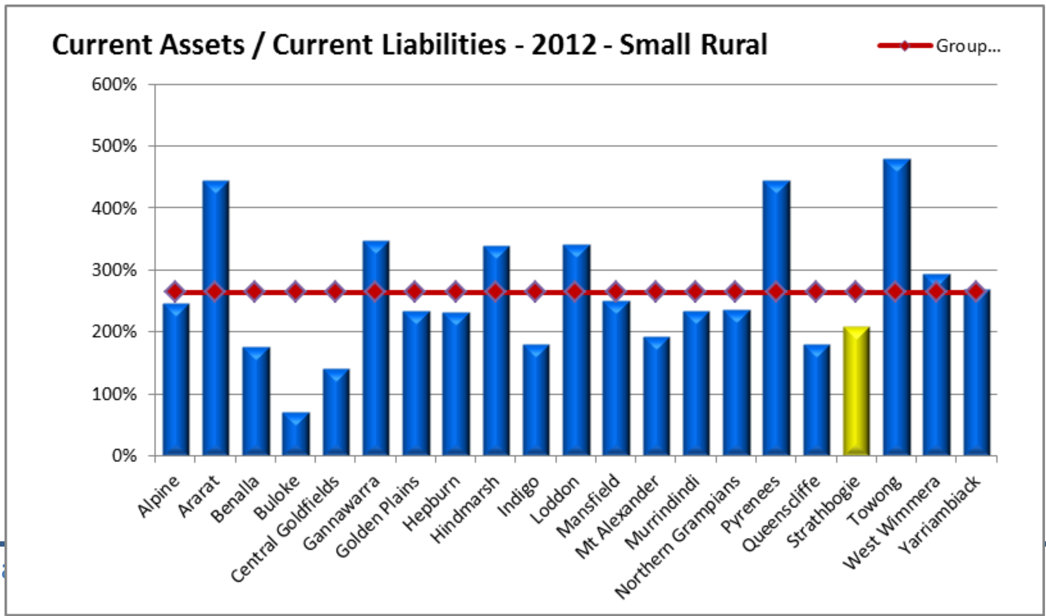
7.3.1 Liquidity

How measured Current assets over current liabilities

Threshold 110 percent or higher

Description This indicator reflects the short-term liquidity position. That is, the Council's ability to repay current commitments from cash or near cash assets.

Councils with a ratio of **110 percent** and below or with a deteriorating trend may be financially at risk of not being able to meet creditors.



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Strathbogie Shire Council's working capital ratio as at June 30, 2012 was **208 percent** (that is, current assets over current liabilities), which is well in excess of the **110 percent** benchmark, which would be the minimum acceptable level.

7.3.2 Debt Exposure

How measured Total liabilities over total realisable assets

Threshold 50 percent or below

Description This indicator reflects the ability to acquit liabilities with the proceeds from the disposal of its realisable assets. Ideally, total liabilities should be less than **50 percent** of realisable assets.

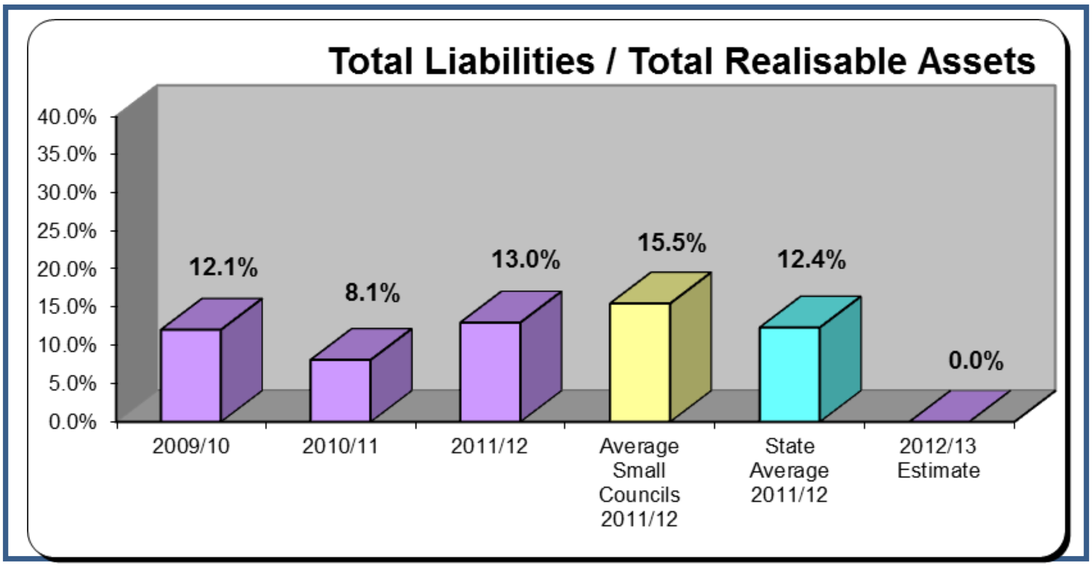


Chart 9: Debt Exposure – Total Liabilities / Total Realisable Assets – 2011/12

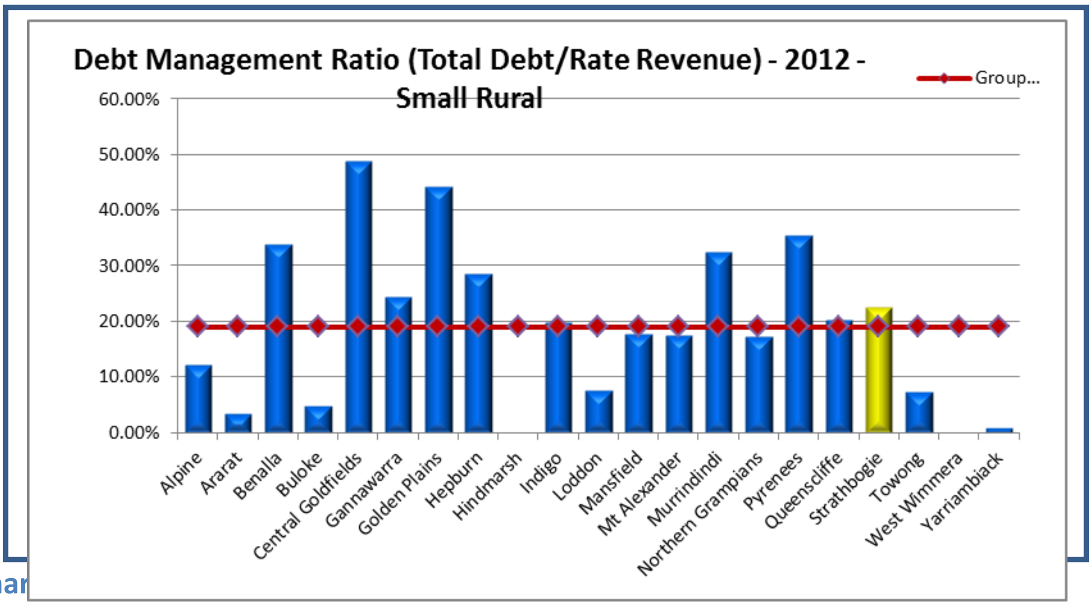
Strathbogie Shire Council's exposure of **13 percent** as at June 30, 2012 is below both the state and **Small Rural's** average and the **50 percent** benchmark.

7.3.3 Debt Management

How measured Total debt as a percentage of rate revenue

Threshold 80 percent or below

Description The Local Government Act 1989 requires that all loans are secured against the revenue stream from rates. A Council with total debt in excess of the revenue from rates would be unable to meet all debt commitments from rate revenue should they be required to be paid at one time. A threshold of **80 percent** has been set.



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Strathbogie Shire Council's debt as a percentage of rate revenue as at June 30, 2012 was **23 percent**, which is well below the **80 percent** benchmark and both the state and **Small Rural's** average.

This is expected to reduce to **16 percent** by the end of 2013/14 as per the LTFP.

7.3.4 Debt Servicing

How measured Debt servicing costs as a percentage of adjusted total revenue

Threshold 5 percent or below

Description This indicator reflects the proportion of total revenue that is used to service debt (interest on outstanding debt and any loan administration charges) and which cannot be used directly for service delivery. A threshold of **5 percent** has been set.

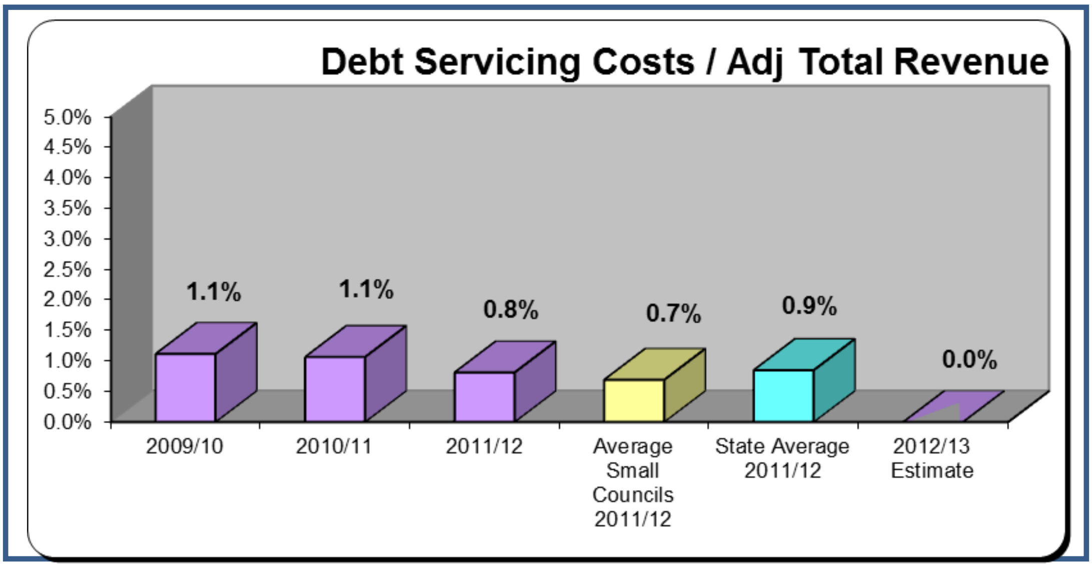


Chart 11: Debt Servicing Ratio (Interest / Total Revenue) – 2011/12

The **Strathbogie Shire Council's** ratio is **0.8 percent** at 30 June 2012, which is below both the state and **Small Rural's** average and the **5 percent** benchmark. This illustrates the benefit of taking loans over a longer period of time such that each generation of ratepayers incurs a modest share of the long term cost of providing long loved community assets.

7.4 What is a Prudent Level of Debt?

The following graph introduces an additional financial ratio namely debt commitment costs as a percentage of rates. Debt commitment costs include principal and interest repayments in a year.

The ratio details how much of the Council's rate dollar is being spent to repay debt and interest as an overall percentage of the Council's rate revenue.

What should the debt servicing and redemption costs be for **Strathbogie Shire Council,** if any? This ratio is the most important ratio as it provides the best indicator of the affordability of debt for a community and Council.

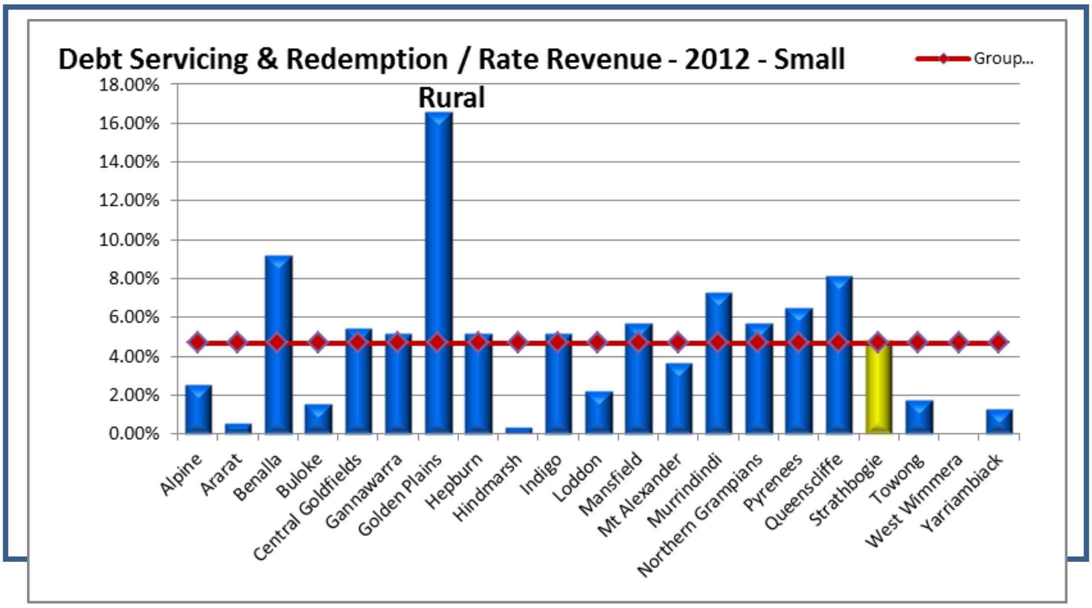


Chart 12: Debt Servicing Ratio (Interest & Redemption / Total Revenue) – 2011/12

The **Strathbogie Shire Council** needs to determine what a prudent level of debt is given that it is a growing **Small Rural** that services a community greater than its population and rate base.

The examination should determine:

- If the Council was to borrow, what types of projects should these funds be put towards; and
- If the Council was to borrow, on what terms should these borrowings be structured

In 2012/13 **5.4 cents** in the rate dollar received serviced debt – both principal and interest payments. This is an affordable level and reflects the benefit of taking out loans over a longer period.

In 2013/14 as per the LTFP, it is proposed that this figure will decrease to **5.1 cents** in the rate dollar received.

Debt is generally used to fund capital expansion projects on new projects (i.e. It should not be used for renewal or maintenance) when the asset life is greater than one generation (i.e. often described as intergenerational equity).

The intergenerational equity theory is based on the premise that successive generations and new residents should contribute to infrastructure or facilities that they will enjoy and benefit from.

Generally these include major facilities (pre-schools, halls, arts centres) where the benefit of the investment will extend beyond the current ratepayers.

By borrowing, the Council ensures today's ratepayers are not fully funding these facilities.

There are limits on borrowings due to the costs of interest payments. If the Council was to borrow too heavily it would result in an inability to invest in capital works due to funds being consumed in debt repayment. Therefore a balance is important.

7.5 Future Loan Program

The table and chart below highlight the forecast borrowings as per the LTFP. The Chart includes the split between current (payable within 12 months) and the total interest bearing facilities:

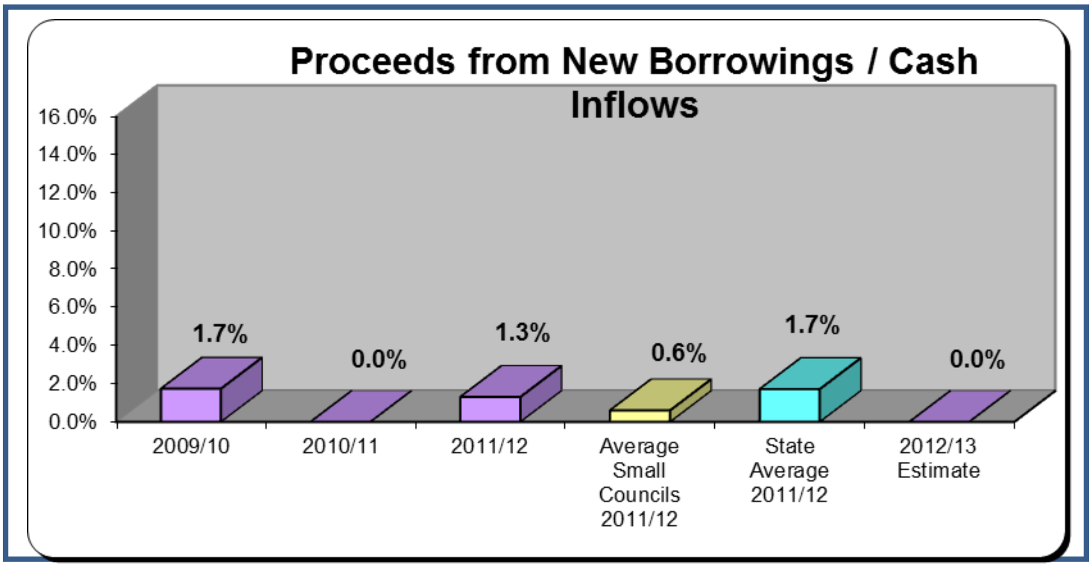


Chart 13: Total and Current Interest bearing Liabilities - 2009/10 – 2012/13

Period Start		1-Jul-12	1-Jul-13	1-Jul-14	1-Jul-15
Period End		30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16
Total Current Interest Bearing Liabilities	$'000	566	596	567	607
Total Non Current Interest Bearing Loans and Borrowings	$'000	2,422	1,810	1,242	635
Total Principal Repayments	$'000	-519	-583	-596	-567
Total Interest Expense	$'000	-227	-193	-1,583	-113
Proceeds from Interst Bearing Loans and Borrowings	$'000	575	0	0	0

Table 12: Debt, Borrowings and Loan Repayments Summary – 2012/13 to 2015/16

As per Council's LTFP there are no predicted borrowings over the term of the SRP.

Strategic Direction

1. That **Strathbogie Shire Council** based on compliance with the State Government Prudential Guidelines, borrows funds for capital expansion projects that provide intergenerational equity; and
2. That **Strathbogie Shire Council** retains its debt servicing and redemption costs at or below **7.0** cents in the rate revenue dollar, towards interest and principal, over the life of this SRP.

8. RESTRICTED ASSETS

8.1 Introduction

Victorian Councils have traditionally operated with reserve funds that are allocated for specific purposes.

These funds do not have bank accounts of their own but are a theoretical split-up of Council's equity. Discretionary reserves are used only as an indicator of funds for specific purposes and represent what those functions have earned.

8.2 Nature and Purpose of Restricted Assets

Strathbogie Shire Council allocates expenditure for known outlays and revenues, directly to the financial year where the expenditure will be incurred, rather than to specific reserve funds. The traditional transfer to and from reserves is generally no longer undertaken as it is contrary to the requirements of the accounting standards and regulated standard reporting that now applies under the *Local Government (Financial and Reporting) Regulations 2004*.

The 2013/14 Strategic Resource Plan is framed around having sufficient cash reserves to cover restricted assets which are primarily developer open space contributions, long service entitlements and grant funding.

Strathbogie Shire Council also generally provides as per Council's LTFP, for at least **$3.0 million** to **$4.7 million** in working capital to meet day to day needs (best and worst case scenarios).

8.2.1 Long Service leave

The *Local Government (Long Service Leave) Regulations 2012* were enacted on 7 February 2012.The changes to the regulations removed the requirement to have a fully funded cash provision based on previous LSL taken. The balance required as at 30 June 2012 was **$1.5 million**.

An amount of **$1.2 million** has been retained for cash for payment of Long Service Leave as a fall back position. This would ensure that there is a cash balance to pay unexpected Long Service Leave above that which would normally be paid in any given year and is equal to the amount required before changes were made to the regulations in February 2012.

8.2.2 Developer Contributions

Development contribution receipts are payments or in-kind works, facilities or services provided by developers towards the supply of infrastructure (generally by the **Strathbogie Shire Council**) required to meet the future needs of a particular community, of which the development forms part.

Levies can be raised through *Development Contribution Plans ("DCP"s)* for a range of State and local government provided infrastructure including roads, public transport, storm water and urban run-off management systems, open space and community facilities.

Under the current legislative framework, any funds that have been received from developers for those infrastructure works, under a DCP or freely negotiated agreements must be held in reserve or "restricted" for that actual infrastructure and cannot be reallocated for other non-related capital projects. Additionally, even if the **Strathbogie Shire Council** does not achieve its predicted expenditure, the works represent Council commitment to infrastructure, and any unspent funds are routinely reserved for the infrastructure in readiness for when it is actually required to be delivered. These projects should also be placed in the relevant year of the 10 year capital works program.

8.2.3 Waste Strategy

All income and expenditure relating to waste services is transferred in and out of the Waste Strategy fund, includes capital and operating expenditure.

8.2.4 Unexpended Grants

These are Grants recognised as revenue during the year that were obtained on condition that they be expended in a specified manner that had not occurred at balance date.

8.2.5 Notional Reserves, Amounts held in Trust

It is a requirement of Council to separately identify trust funds or refundable deposits as "restricted assets". While the Council is able to access these funds in its day to day treasury management, the financial statements must recognise that a component of its cash balances relates to deposits that may be refundable in the future.

Restricted Assets	Estimate 30 June 2013 $000's
Long Service Leave	**1,200**
Developer Contributions	**0**
Waste Strategy	**0**
Unexpended Grants	**511**
Amounts held in Trust	
- Refundable Building Deposits	**19**
- Refundable Contract Deposits	**237**
- Other Refundable Deposits	**164**
Total	**2,131**

Table 13: Restricted Assets – 2012/13

Strategic Direction

1. That **Strathbogie Shire Council** builds into its 10 year financial plan the estimated movements in restricted assets and provides for at least **$1.5 million** to **$2.0 million** in working capital to meet day to day needs.
2. That to ensure sufficient funds are available to meet operational needs, **Strathbogie Shire Council** retains a cash position of at least **$3.0 million** to **$4.7 million** after deducting restricted assets, i.e. cash received but not spent or cash to be spent for specific purposes such as developer contributions (infrastructure), waste facility development, employee long service leave payments, security deposits etc.

9. RATING AND OTHER REVENUE STRATEGIES

9.1 Introduction

This section includes:

- Valuations;
- Components of Strathbogie Shire Council's rating base;
- Background to present rating system;
- Rates Affordability;
- Rating Strategy;
- Rates and Charges Budget 2012/13;
- Waste services;
- Grant revenue;
- Victoria Grants Commission; and
- Fees and charges revenue.

9.2 Valuations

Valuations are conducted under the provisions of the *Valuation of Land Act (1960)* with each separate occupancy on rateable land computed at its net annual value (NAV), capital improved value (CIV), and site value (SV).

Valuations are carried out using *Valuation Best Practice Principles* as set down by the State Government Valuer General. In **Strathbogie Shire Council** the Valuer is appointed via a competitive process on a two year cycle as general valuations are required every two years to ensure a common date is used for all valuations. Data on every property is recorded and used by the appointed valuer, along with sales, rentals and other information to determine the valuations.

A general valuation (revaluation) establishes the value of a property relative to all other properties, that is, its market relativity. Valuations form the basis of **Strathbogie Shire Council's** rating system; therefore, their accuracy is of paramount importance.

The 2012 revaluation was undertaken based on property values at 1 January 2012.

The revaluation does not in itself raise the total rate income for **Strathbogie Shire Council**, as the rates are distributed based on the property value of all properties across the municipality. As a result of the revaluation, some property owners may pay more in rates and others less, depending on their new property valuation, relative to others.

9.2.1 Definitions of valuations

Strathbogie Shire Council uses the capital improved method of valuation (CIV), which is the market value of a property including land, buildings and improvements. CIV has the following long-term advantages relative to other valuation bases:

- flexibility to apply a range of strategic differentials;
- does not prejudice the industrial, commercial and retail sectors in terms of the rate burden; and
- is easier for people to understand.

The other valuation bases the Valuer is required to return are:

- Site value (SV) which is the market value of land excluding improvements; and
- Net annual value (NAV) which represents the reasonable annual rental of a property, minus specified outgoings. In most cases this is five percent of the CIV.

9.2.2 Supplementary valuations

Supplementary valuations are made during the financial year when a significant change to the valuation occurs.

The most common causes for supplementary valuations are:

- construction of a new dwelling or building;
- subdivision of a property; or
- consolidation of properties
- **Strathbogie Shire Council** presently undertakes this task on a quarterly basis.

As a result of a supplementary valuation, a rate notice is issued to reflect any change in rates.

9.2.3 Components of Council's Rating Base

Strathbogie Shire Council levies differential rates, annual service charges and a municipal charge, to raise its annual rates and charges revenue.

The legislative basis of how they apply to **Strathbogie Shire Council** are available upon request:

- Differential Rates – Legislation;
- Municipal Charges;
- Special Rates and Charges;
- Service Rates and Charges; and
- Rebates and Concessions

9.2.4 Assessment of Current Rating Levels

Comparing the relativity of rating levels between Councils can be a difficult exercise due to debate over the most appropriate methods to use and the inability to take into account the intricacies of rating structures in different Councils.

Each local government sets rates based on an assessment of the desires, wants and needs of its community and as each community is different, direct comparisons can be difficult.

For example, cash holdings of municipalities vary and Councils have significantly different infrastructure needs and geographic sizes.

For example, Surf Coast City is 1,560 square kilometres, compared to Moira Shire at 4,057 square kilometres and Wellington City at 10,200 square kilometres.

Each municipality also has significantly different levels of capital works, funding structures for capital works and varying debt levels.

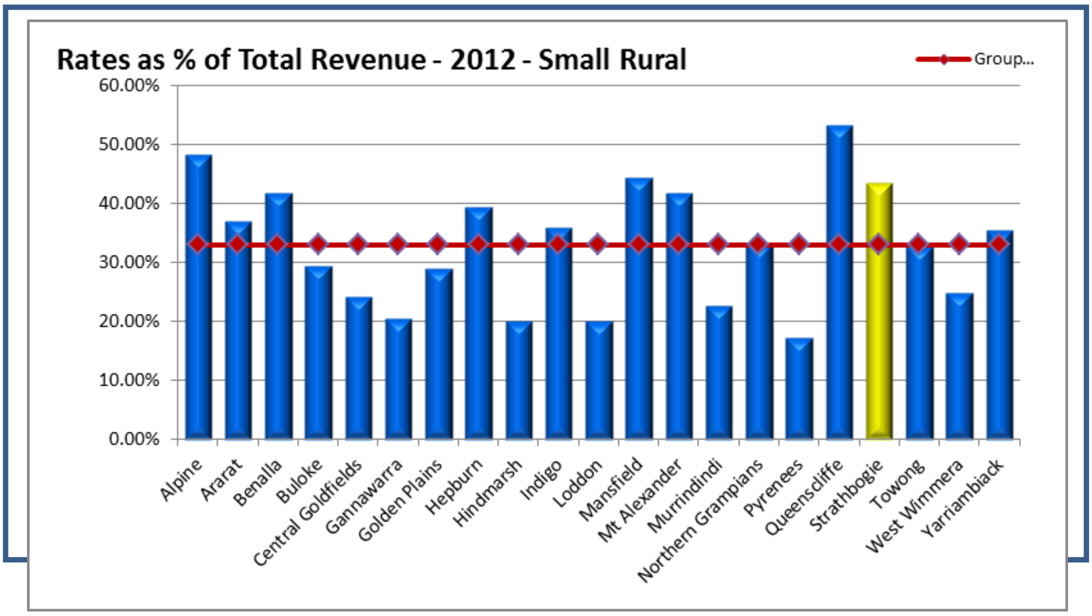
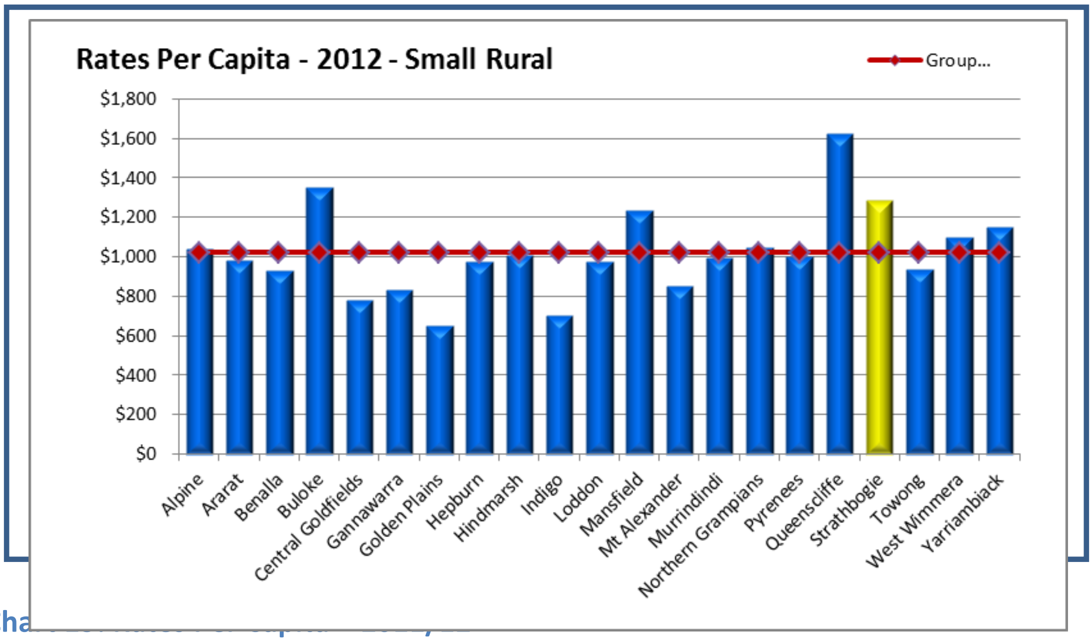


Chart 14: Rates as % of Total Revenue– 2011/12

On rates per assessment basis in the 2011/12 financial year, **Strathbogie Shire Council** was above average for the **Small Rural** group.



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Higher comparative rating levels do not necessarily represent a position of weakness or inefficiency. External funding bodies may consider levels of rating effort in their funding decisions, i.e. low rates could be construed as less preparedness at the local level to match the external contribution. Higher rating can also indicate that a Council has opted for more control of its destiny, e.g. to achieve a particular project for the community that would otherwise be out of reach.

What is most critical in setting a rating structure is for **Strathbogie Shire Council** to be accountable and responsible for the policy decisions with respect to the range of services provided, the expenditure and delivery of the services and the way services are funded and paid for by the community.

Strathbogie Shire Council must be aware of and have regard to the views of its communities with respect to the priority areas for Council services. Council will heighten the communities awareness of the short and long-term financial implications of potential service priorities and key decisions, including trade-offs between service priorities.

Open and transparent processes for decision making include the making of information openly available to people in the local community and seeking active participation by the community with respect to choices regarding the range and level of services provided and how they are funded.

9.2.5 Background to the Present Rating System

Prior to dealing with the rating strategy, it is important to have a broad knowledge of the present rating structure and trends.

The following tables summarises the rates in dollar levied in the 2012/2013 year including a comparison with 2011/12:

Differential Rate Type	Cents in/$ CIV 2011/12	Cents in/$ CIV 2012/13	Change (%)
Residential Improved Land	0.44938	0.470931	4.8%
Vacant Residential Land	Nil	0.706396	
Farm Land	0.38197	0.400291	4.8%
Commercial/Industrial Land	0.49432	0.541571	9.6%
Vacant Commercial Land	Nil	0.812356	

Table 14: Rates and Charges Annualised - 2012/13

The table below outlines the total rates and charges for 2011/12 and2012/13:

Description	Total 2011/12 ($)	Total 2012/13 ($)	Change (%)
General Rates	9,817,600	10,739,840	9.3%
Municipal Charges	1,657,600	1,704,717	2.8%
Waste Service Charges	1,636,000	1,745,646	6.7%
Total Rates and Charges Revenue	13,109,889	14,190,203	8.2%

Table 15: Rates and Charges 2011/12 as compared to 2012/13

The table below outlines the individual annualised rates for 2013/14 based on Council's LTFP;

Type of Property	2013/2014 ($)
Residential Improved Land	5,174,589
Vacant Residential Land	469,406
Farm Land	5,530,908
Commercial Industrial Land	534,130
Vacant Commercial/Industrial Land	7,012

Table 16: Individual Rates Annualised 2013/14

9.2.6 Rates Affordability

The ability to increase rate revenue is a significant factor in determining whether a Council is potentially at risk. **Strathbogie Shire Council's** rating effort has been satisfactory and when benchmarked was above the average effort of the **Small Rural** group.

Australian Taxation Office (ATO) income data for wage and salary earners (PAYE) can be used to give some indication of rates affordability.

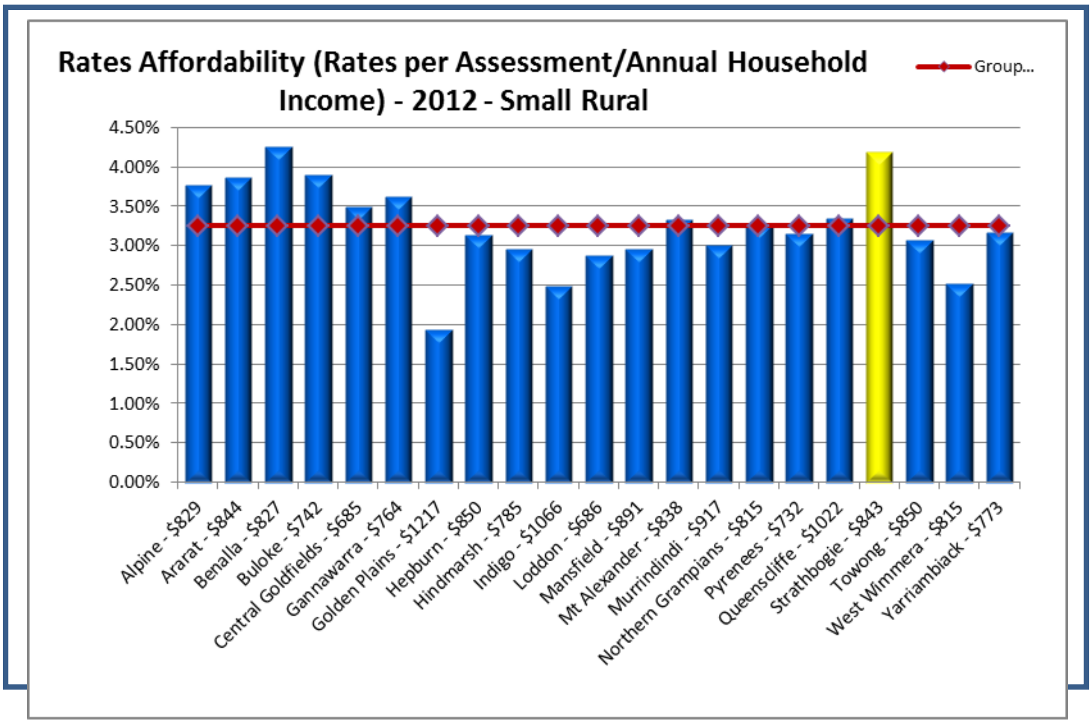


Chart 16: Rates Affordability Small Rural – 2011/12

9.2.7 Rating Strategy

Strathbogie Shire Council's rating establishes a framework by which rates and charges will be shared by the community. In developing a long-term financial plan, rates and charges are an important source of revenue.

The rating system determines how **Strathbogie Shire Council** will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property.

The total money to be raised is taken from **Strathbogie Shire Council's** long-term financial plan.

Strathbogie Shire Council and the community invariably confront tradeoffs and the principles are designed to improve the quality of decision making in this environment.

The principles set out below were synthesized from a number of sources including the work published by a number of authors quoted in the Productivity Commission report, *Assessing Local Government Revenue Raising Capacity.*

Use was also made of long-established principles in the public finance and economics literature, as well as some of the principles outlined in recent Financial Sustainability reports around the nation.

The proposed principles are as follows and are further explained in Appendix A:

- Sustainable financial management;
- Evaluating and setting priorities;
- Core functions;
- Identifying cost of service delivery;
- Prudent borrowings for infrastructure;
- Rate setting and pricing for services;
- Openness and transparency, and
- Providing services on behalf of other tiers of government.

The wider and more rigorous application of the principles offers **Strathbogie Shire Council** a way to determine more effectively which services local communities really want or value and how much they are prepared to pay for them.

Strathbogie Shire Council can then exercise its legitimate governance role and determine not only who wants what service and who benefits but what is socially equitable, that is, who pays how much.

9.2.8 Rates and Charges Budget – 2013/14

A key decision of **Strathbogie Shire Council** during the life of the SRP is to determine the level of rate increase that will address funding levels for capital works, service provision for the municipality and improve **Strathbogie Shire Council's** long-term financial sustainability.

As per the LTFP, the outcome of a **7 percent** increase in rates and charges in 2013/14, after annualizing the rates and charges, is an additional **$977,000** over the 2012/13 financial year:

Description	Total Rates and Charges 2012/2013 ($)	Total Rates and Charges 2013/2014 ($)	Change (%)
Residential Improved Land	4,733,727	5,174,589	9.3%
Vacant Residential Land	338,255	469,406	38.8%
Farm Land	5,190,691	5,530,908	6.5%
Commercial/Industrial Land	471,247	534,130	13.3%
Vacant Commercial/Industrial	5,920	7,012	18.4%
Totals	10,739,840	11,716,045	9.08%

Table 17: Rate Increases[2]– 2013/14

A Municipal Charge is a fixed charge per property or assessment regardless of the valuation of that property. It operates in combination with the charge based on Capital Improved Value, and any rates collected by the municipal charge reduce the remaining rates revenue collected by the Capital Improved Value basis.

The municipal charge for 2013/14 is **$266** which is set at **12.8 percent** of the total revenue from rates and municipal charges. The maximum revenue allowable for the municipal charge is **20 percent** of total revenue from rates and municipal charges (Section 159 of the Local Government Act)**.** The municipal charge ensures all properties pay an equitable contribution towards **Strathbogie Shire Council's** unavoidable fixed costs.

9.2.9 Waste Service Charges

Strathbogie Shire Council is empowered under Section 162(1) (b) of the *Local Government Act (1989)* to levy a service charge for the collection and disposal of refuse.

The purpose of this charge is to meet the costs of waste disposal and recycling activities throughout the **Strathbogie Shire** area, including development and rehabilitation of Landfill sites and the operating costs of Tips and Transfer Stations.

Strathbogie Shire Council has typically used this option through the raising of garbage and recycling charges on the annual rate assessment.

Strathbogie Shire Council's Waste Services include[3]:

- Weekly kerbside waste collection service;
- Fortnightly kerbside recycling and green organics collection service (Euora, Nagambie);
- Waste disposal facilities at **Violet Town and Nagambie** transfer stations;
- Street litter and public place recycling bins; and
- Forward planning and for capital budget requirements.

Strathbogie Shire Council's garbage proposed charges are as described below (** denotes ex GST). A total income of **$1.8 million** will be received for garbage and recycling services in 2013/14 to support recurrent operating expenditure).

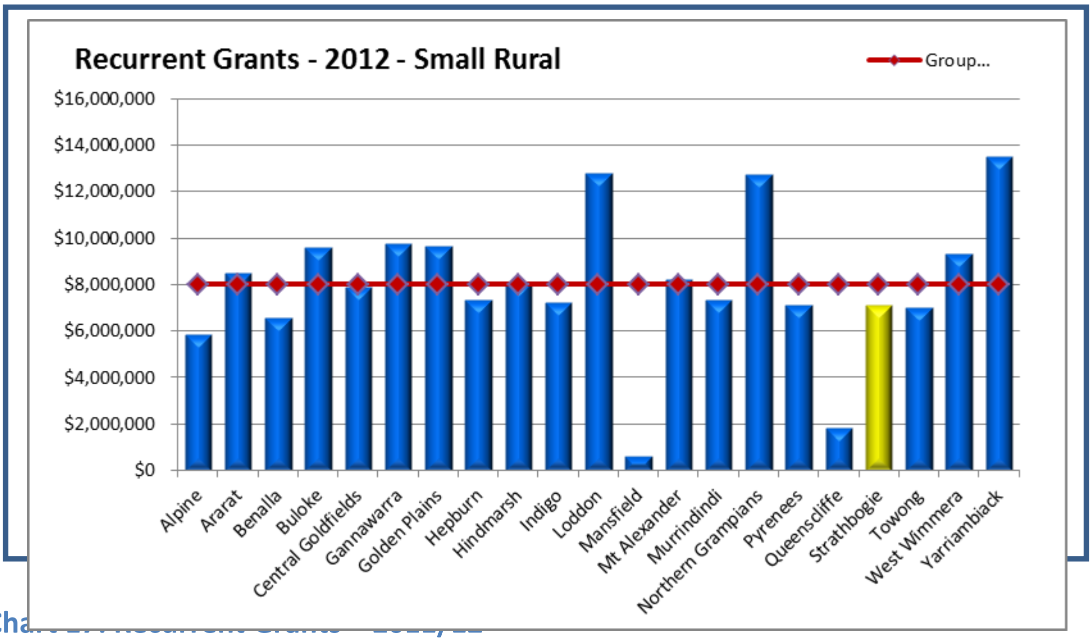
[2] *Incorporating municipal and garbage charges*
[3] *The waste collection service is compulsory in urban areas and optional in rural areas*

Service Charge	Charge per Service 2012/2013 ($)	Charge per Service 2013/2014 ($)	Change ($)	Change (%)
240L Waste/Recyclables Service**	624	653	29	4.6%
120L Waste/Recyclables Service**	312	326	14	4.5%
80L Waste/Recyclables Service**	155	162	7	4.5%

Table 18: Projected Garbage Charges – 2013/14

9.2.10 Grant Revenue

As at 30 June 2012 **Strathbogie Shire Council** was below average in terms of receiving government grant revenue, compared to its like Council grouping as outlined in the graph below. As a benchmark **Strathbogie Shire Council** receives **23.9 percent** of its revenue (as a percentage of total revenue) from operating grants compared to the average of **Small Rural's** at **41 percent.**



Cha

Strathbogie Shire Council must continue its strong focus on securing grant revenue, particularly for capital works. Grants (capital and operating) at 30 June 2012 totalled **$12.5 million**. With a longer term capital works program in place **Strathbogie Shire Council** should be able to target and focus on grants that align with its overall strategic direction.

9.2.11 Victoria Grants Commission

Strathbogie Shire Council receives approximately **18 percent** of its revenue from the Victoria Grants Commission. This revenue is projected at **$2.4 million** in 2012/13 and budgeted at **$4.7 million** in 2013/14.(The grants base has increased due to Grants Commission revenue reverting to a yearly cycle).

9.2.12 Fees and Charges Revenue

Strathbogie Shire Council's fees and charges revenue as a percentage of its total revenue is below average for **Small Rural's** as outlined in the graph below.

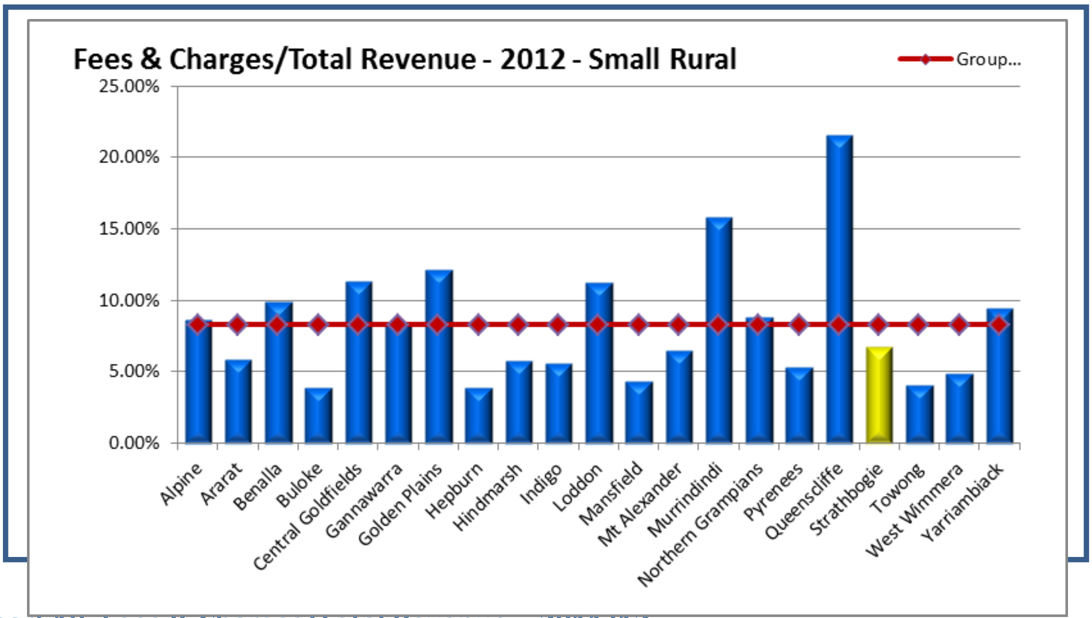


Chart 18: Fees & Charges/Total Revenue – 2011/12

Strategic Direction

That Strathbogie Shire Council;

1. retains capital improved value (CIV) as its valuation base;
2. Council's LTFP provides a municipal charge that reduces to **10 percent** of rate revenue plus the municipal charge to ensure an equitable contribution of the unavoidable fixed costs of **Strathbogie Shire Council** and to reduce the burden on low valued properties;
3. considers future increases based on EPA, regulatory and safety requirements and the need to sustain the Council's long term waste operations strategy;
4. in 2013/14 as per Council's LTFP, adopts an **7 percent** increase in total revenue for general rates and municipal charges and an **4.6 percent** increase in total revenue for waste collection including funding the cost of disposal of domestic waste, recycling collection and the environment levy;
5. pursues recurrent grant funding and strategic capital funding aligned with Council Plan objectives, including benchmarking of results with other Councils; and
6. undertakes detailed analysis on the level of existing fees and charges and investigates new revenue sources and report recommendations to Council.

10. STRATEGIC FINANCIAL PLAN

10.1 Introduction

There are a number of dynamic variables that may influence the outcomes expressed in this SRP. They include:

- Rating levels and supplementary rate income;
- Government grant revenue (both recurrent and capital);
- Granted asset amounts;
- Asset revaluations (major impact on fixed asset value and depreciation);
- Asset sales;
- Mix of funding between capital works/special projects (new initiatives); and
- Level of growth factor applied to expenditure items / rate of expenditure/activity level.

This section includes:

- Modelling methodology;
- Financial assumptions;
- Adopted financial strategy; and
- Conclusion

10.2 Modelling Methodology

The SRP establishes a framework for Council to benchmark its performance and an industry developed long term financial software model has been utilised to verify the data. The base point used for financial modelling has been the Adopted Council budget for 30 June 2013.

The Standard Statements (financial statements) are the result of the modelling and are reproduced from the long term financial software model, refer *Appendix C*.

10.3 Financial Assumptions

The following information explains the major financial assumptions applicable to the financial option considered by Council prior to community input.

10.3.1 Labour and on-costs

Increases in labour and on-costs are composed of two elements. The elements are enterprise agreement increments and movements within bandings as part of the annual performance review process. The table below highlights these assumptions.

Year	2011/12 %	2012/13 %	2013/14 %	2014/15 %
EBA Banding Increase/Other	**3**	**3**	**3**	**3**
Award Increments	**1**	**1**	**1**	**1**
Total	**4**	**4**	**4**	**4**

Table 19: Labour and on-costs – 2012/13

10.3.2 Depreciation

Depreciation estimates are based on the projected capital spending contained within each assumption. Depreciation estimates are influenced by future asset revaluations and depreciation charges are assessed following condition assessments. The overall depreciation charge is also impacted by the amount of assets granted to the municipality following subdivision.

10.3.3 Materials and contracts

These works are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2012/13 levels through the life of the SRP.

The broad assumption in materials and contracts is for an increase matching CPI. Outside of the broad parameters are one off expenses such as election expenses, valuation contract amounts and insurances. A subsidiary record of one off items and how they are factored into the model is recommended instead of a series of individual adjustments within the model.

10.3.4 Special projects/consultancies

These works are essentially one-off expenditures that do not constitute the creation of an asset and have been maintained at 2012/13 levels through the life of the SRP.

10.3.5 Debt servicing and redemption

Debt redemption is calculated according to the restructured loan schedules. Council borrowings are dealt with in detail in Section 7.

10.3.6 Written-down values of assets sold

All Written-down values relate to plant and land sold as part of the 10-year program. These are based on information from Council's Asset Registers.

10.3.7 Rate revenue

As per Council's LTFP, the 2012/13 Budget is based on an increase of **7 percent** for rates and municipal charges collected. Council's Rating Strategy is dealt with in detail in Section 9.7.

The mechanism to estimate supplementary revenue is at present an arbitrary one, based on historical dollar returns with forward probable development revenue estimated.

10.3.8 Service charges

The 2012/13 Budget was based on service charge and waste management charge that was increased by **4.6 percent**.

Funds raised are ultimately deployed to waste management (operating and capital) activities. This is discussed in Section 9.2.9 in more detail.

10.3.9 Grant revenue

An allowance of **$8.8 million** has been made as operating grant revenue for services and projects in 2012/13. In broad terms, an **3 percent** per annum increase has been allowed for operating grants reflecting the nature of this revenue type, which has seldom increased by CPI across the board. Reimbursements from the *State Revenue Office* for land valuations have also been included in the appropriate years. An allowance of **3 percent** has been allowed for the Victoria Grants Commission Grant.

10.3.10 Fees and charges

As per Council's LTFP, Fees and charges that Council has discretion over have been increased by **3 percent** per annum. Fees and charges of **$1.4 million** have been provided for in 2013/14.

10.3.11 Statutory Fees and Fines

Council has no control over a large amount of statutory fees prescribed by the State Government. Fines include town planning, local laws and the animal pound. Fees and fines are included in the above.

10.3.12 Interest on investments

Interest on investments has been estimated based on cash flow.

10.3.13 Proceeds from sale of assets

Proceeds from sale of assets are those relating to plant changeover and land sales.

10.3.14 Capital grants

Capital grant revenue is **$4.9 million** in 2012/13, with revenue from future years estimated to fund future capital works.

Capital grants have been forecast conservatively. Funds raised above or below the forecast amount will directly impact on the level of capital expenditure achievable. While conservative amounts have been included, it should be noted that Council does not pursue part-funded capital works that do not fit with its strategic direction.

10.3.15 Granted assets

Granted assets are those handed over to Council following the completion of a subdivision. These include roads, footpaths, kerb, channel, drainage etc.

The level of granted assets is forecast to continue at low-levels based on predicted levels of property development. However, estimates beyond 2013/14 are not based on any reliable data at this point. While granted assets add to Council's overall asset base, they also add to the future obligations to maintain and replace these assets at the end of their useful lives.

10.3.16 Capital expenditure

Capital expenditure amounts for new assets, local roads, buildings and information technology (renewal), and the like and have been directly budgeted for during the next 4-years. The balance of capital expenditure has been left unallocated at this point. These funds may be available for capital renewal (priority), capital upgrade or expansion. Council will develop a 10-year capital works program during the 2013/14 financial year.

10.4 Conclusion

The *Strategic Resource Plan* was adopted, by Council at its Special meeting in June. The SRP continues to provide a financial framework for Council, enabling an assessment of Council resources and assisting Council to plan and fund capital infrastructure and meet future community aspirations. The *Standard Statements* (financial statements) are detailed in *Appendix C*.

Strategic Direction

1. That **Strathbogie Shire Council** finalises its preferred rating option for its strategic financial model to fund the Council Plan, capital expenditure and service delivery through the annual budget process.

11. APPENDIX A PRINCIPLES FOR RATING, VICTORIAN LOCAL GOVERNMENT CONTEXT

(a) Sustainable financial management

The aggregate revenue raised by Council plus that received from grants needs to be sufficient to cover the aggregate long-run cost of delivering the services provided measured on an accrual-accounting basis. Sustainable financial management requires the application of multi-year framework to financial management, asset management, planning, spending and revenue decisions.

(b) Evaluating and setting priorities

Council is aware of and will have regard to the views of its communities with respect to the priority areas for Council services. Council will heighten the communities awareness of the short and long-term financial implications of potential service priorities and key decisions, including trade-offs between service priorities.

(c) Core Functions

Council will continue to provide a full range of municipal goods and services in accordance with its statutory and community service obligations.

Where Council engages in the provision of services, that resemble those of private sector markets, the application of competitive neutrality principles requires Council to aim to recover the full costs of a significant business activity, including the direct costs of providing goods and services, rate and tax equivalent payments and a commercial rate of return on investment.

(d) Identifying the cost of service delivery

Council will understand the cost of delivering its services as an acknowledgement that this information is useful in determining the range of services, and the level of service provision, and the corresponding structure for rates and charges.

(e) Prudent borrowings for infrastructure

Borrowings when undertaken prudently are an appropriate means for local government to finance long lived infrastructure assets as the cost of servicing of debt through rates or user charges enables the cost of the asset to be matched with the benefits from consumption of the services over the life of the asset, thereby promoting intergenerational equity.

(f) Rate setting and pricing of services

The appropriate setting of rates and prices for goods and services is essential for the efficient recovery of the costs of providing Council services and Council recognises that by choosing the appropriate instrument (rates, fees, user charges) it can achieve a better indication of the willingness of the community to pay for services and minimize the economic distortions that may arise when an inappropriate instrument is used.

Council will recover costs for services directly from the users of those services if a service benefits identifiable individuals or groups. If the benefit directly cannot be identified and/or if those that benefit directly cannot be excluded from using the service the costs should be allocated to the community.

Where infrastructure costs are directly attributable to individual property owners, Council will recover those costs through the application of special charge schemes, developer charges or contributions.

Fees and charges should be applied as far as practicable to raise revenue for the provision of services that are not pure public services, with efficient pricing, to ensure that services provided by local government are supplied to those who are willing to pay the opportunity cost of supply.

Council will also take consideration of the community's ability to pay as well as the benefits derived from the provision of services.

(g) Openness and transparency

Council is accountable and responsible for the policy decisions with respect to the range of services provided, the expenditure and delivery of the services and the way services are funded and paid for by the community. Open and transparent processes for decision making of Council include the making of information openly available to people in the local community and seeking active participation by the community with respect to choices regarding the range and level of services provided and how they are funded.

(h) Providing services on behalf of other tiers of government

Effective interaction between Council and other tiers of government is important to ensure delivery of some essential services to the community. Where Council enters into the delivery of services on behalf of other tiers of government, the supply of these services should be delivered on commercial terms based on the incremental cost to Council. In situations where Council determines to provide subsidies for the delivery of these services Council will make the costs transparent and inform the community about the purpose and amount of the subsidy and how it is to be funded.

12. APPENDIX B GLOSSARY OF TERMS - DEFINITIONS

TERM	DEFINITION
Adjusted operating surplus/deficit	Operating surplus/deficit less revenue from capital (non-recurrent) grants, developer contributions (i.e. assets contributed), asset revaluations, sale of assets plus expenditure from asset revaluations, WDV of assets sold and unfunded superannuation expense.
Adjusted total operating expenses	Total operating expenses as per the "Statement of financial performance" – net of asset revaluations, unfunded superannuation expense and WDV of asset sold.
Adjusted total revenue	Total revenue from "Statement of financial performance" – net of asset sales, asset contributions in kind. Capital grant funding and revaluation adjustments.
Capital grants (non-recurrent)	Capital or non-recurrent grants as disclosed in notes.
Current assets	Total current assets from "Statement of financial position".
Current liabilities	Total current liabilities from "Statement of financial position"
Debt redemption	Debt principal's repayments.
Debt servicing costs (interest)	Total borrowing costs or interest expense as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.
Fees and charges revenue	Total fees and charges revenue as per the "Statement of financial performance" or as disclosed in note in some Councils' statements (includes fines).
Grant income and reimbursements	Total grants revenue as per the "Statement of financial performance" or as disclosed in note in some Councils' statements (includes Vic Roads sometimes shown as "reimbursements" by some Councils).
Granted assets	Total value of assets received from developers (in kind) as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.
Interest earnings	Total interest received as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.
No. of rateable properties	Number of rateable properties in municipality.
Non-current liabilities	Total non-current liabilities from "Statement of financial position".
Proceeds from sale of non-current assets	Total proceeds from asset sales as per the "Statement of financial performance" or as disclosed in note in some Council's statements, (gross received not Written-down value).
Rate revenue	Total rate revenue as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.
Rates outstanding at end of year	Rate debtor amount as disclosed in "Receivables" note.

TERM	DEFINITION
Total assets	Total assets from "Statement of financial position".
Total capital asset outlays	Payments for capital purchases per the "Cash flow statement".
Total cash inflows from operations, finance and Investment Act	Total inflows per the "Cash flow statement".
Total cash outflows from operations, finance and Investment Act	Total outflows per the "Cash flow statement".
Total depreciation	Total depreciation expense as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.
Total depreciation on infrastructure assets	Total depreciation on infrastructure assets as disclosed in "Depreciation expense"" note.
Total debt	Total interest bearing liabilities (current and non-current) from "Statement of financial position".
Total indebtedness	Total liabilities (current and non-current) from "Statement of financial position".
Total infrastructure assets	Total infrastructure assets from "Statement of financial position" or as disclosed in note (Written-down value). Infrastructure includes roads, bridges, drains, road structures, other structures, playground equipment, and other like categories. Heritage assets have been deemed to be building assets. Work in progress, where not separately split, has been included as infrastructure.
Total net realisable assets	Total assets less total infrastructure assets.
Total operating expenses	Total operating expenses as per the "Statement of financial performance".
Total revenue	Total revenue from "Statement of financial performance"
Written-down value of assets sold	Written-down value of assets sold as per the "Statement of financial performance" or as disclosed in note in some Councils' statements.

Table 20: Glossary of Terms / Definitions

13. APPENDIX C - STANDARD FINANCIAL STATEMENTS

This Appendix contains a graph that details the outcomes from the Standard Statements that follow.

The Standard Statements include the:

- Standard income statement;
- Standard balance sheet;
- Standard statement of cash flows;
- Standard statement of capital works; and
- Financial indicators.

These statements are required under Part 2 Section 5 of the Local Government (Finance and Reporting) Regulations 2004. The Regulations commenced on 20 April 2004.

The original SRP statements partially differed in layout due to their release prior to the proclamation of the regulations.

All statements that form part of the Strategic Resource Plan Financial Statements are based on the previous Council's Long Term Financial Plan.

13.1 Standard income statement

	Budget 2012/13 $'000	SRP 2013/14 $'000	SRP 2014/15 $'000	SRP 2015/16 $'000	SRP 2016/17 $'000
Income					
Rates and charges	**14,064**	15,181	16,390	17,480	18,645
Statutory fees and fines	**277**	285	294	303	312
User fees	**1,148**	1,182	1,230	1,279	1,330
Contributions - cash	**90**	-	-	-	-
Contributions - non-monetary assets	**-**	-	-	-	-
Grants - operating (recurrent)	**3,951**	6,468	6,662	6,862	7,068
Grants - operating (non-recurrent)	**-**	-	-	-	-
Grants - capital (recurrent)	**-**	-	-	-	-
Grants - capital (non-recurrent)	**4,895**	2,842	2,483	2,483	2,483
Net gain on disposal of property, infrastructure and equipment	**(529)**	(533)	(547)	(563)	(577)
Other income	**315**	323	328	334	339
Total Income	**24,211**	25,749	26,840	28,178	29,600
Expenses					
Employee benefits	**(9,485)**	(9,983)	(10,489)	(10,961)	(11,454)
Materials and services	**(9,463)**	(8,999)	(9,359)	(9,734)	(10,123)
Bad and doubtful debts	**(2)**	(2)	(2)	(2)	(3)
Depreciation and amortisation	**(4,434)**	(4,470)	(4,520)	(4,655)	(4,795)
Finance costs	**(227)**	(193)	(153)	(113)	(73)
Other expenses	**(183)**	(191)	(197)	(203)	(209)
Total Expenses	**(23,794)**	(23,838)	(24,721)	(25,668)	(26,657)
Surplus (deficit) for the year	**417**	1,911	2,119	2,510	2,943
Other comprehensive income					
Other	**11,588**	6,047	6,290	6,580	6,882
Comprehensive result	**12,005**	7,958	8,409	9,089	9,825

13.2 Standard balance sheet

	Budget 2012/13 $'000	SRP 2013/14 $'000	SRP 2014/15 $'000	SRP 2015/16 $'000	SRP 2016/17 $'000
Current assets					
Cash and cash equivalents	**2,762**	2,929	3,013	4,034	4,714
Trade and other receivables	**1,825**	2,427	2,572	2,700	2,826
Other assets	**193**	193	193	193	193
Total current assets	**4,780**	5,548	5,778	6,927	7,733
Non-current assets					
Trade and other receivables	**125**	129	133	137	141
Property, infrastructure, plant and equipment	**201,910**	208,743	216,500	224,044	232,626
Total non-current assets	**202,035**	208,872	216,633	224,180	232,767
Total assets	**206,815**	214,420	222,411	231,107	240,500
Current liabilities					
Trade and other payables	**3,633**	3,860	4,026	4,189	4,353
Interest-bearing loans and borrowings	**566**	596	567	607	172
Provisions	**-**	-	-	-	-
Total current liabilities	**4,199**	4,456	4,593	4,797	4,525
Non-current liabilities					
Other payables	**202**	202	210	218	227
Interest-bearing loans and borrowings	**2,422**	1,810	1,242	635	463
Provisions	**68**	71	74	76	80
Total non-current liabilities	**2,692**	2,082	1,526	930	770
Total liabilities	**6,891**	6,538	6,119	5,727	5,295
Equity					
Accumulated surplus	**70,640**	72,551	74,670	77,180	80,123
Asset revaluation reserve	**129,084**	135,131	141,421	148,000	154,883
Other reserves	**200**	200	200	200	200
Total equity	**199,924**	207,882	216,291	225,380	235,205

13.3 Standard statement of cash flows

	Budget 2012/13 $'000 Inflows (Outflows)	SRP 2013/14 $'000 Inflows (Outflows)	SRP 2014/15 $'000 Inflows (Outflows)	SRP 2015/16 $'000 Inflows (Outflows)	SRP 2016/17 $'000 Inflows (Outflows)
Cash flows from operating activities					
Receipts					
Rates and charges	**14,064**	14,835	16,304	17,404	18,569
Grants - operating	**4,336**	6,321	6,628	6,832	7,039
Grants - capital	**4,993**	2,777	2,470	2,472	2,473
Interest	**198**	193	197	197	197
User fees	**1,148**	1,156	1,223	1,273	1,325
Statutory fees and fines	**277**	279	292	301	310
Other revenue	**207**	119	126	131	136
	25,223	25,680	27,240	28,611	30,049
Payments					
Employee benefits	**(9,485)**	(9,870)	(10,364)	(10,836)	(11,326)
Materials and consumables	**(9,346)**	(8,897)	(9,320)	(9,698)	(10,089)
External contracts	**-**	(5)	(5)	(5)	(5)
Other expenses	**(185)**	(186)	(193)	(199)	(205)
	(19,016)	(18,958)	(19,883)	(20,738)	(21,626)
Net cash provided by operating activities	**6,207**	6,722	7,358	7,874	8,424
Cash flows from investing activites					
Proceeds from sales of property, plant and equipment	**500**	300	309	318	327
Deposits	**-**	9	9	10	10
Payments for property, plant and equipment	**(9,358)**	(6,089)	(6,843)	(6,500)	(7,400)
Net cash used in investing activites	**(8,858)**	(5,780)	(6,525)	(6,172)	(7,063)

Cash flows from financing activities					
Finance costs	**(227)**	(193)	(153)	(113)	(73)
Proceeds from borrowings	**575**	-	-	-	-
Repayment of borrowings	**(929)**	(583)	(596)	(567)	(607)
Net cash provided by (used in) financing activities	**(581)**	(776)	(749)	(681)	(681)
Net increase (decrease) in cash and cash equivalents	**(3,232)**	167	84	1,021	680
Cash and cash equiavalents at beg of year	**3,924**	692	859	943	1,964
Cash and cash equiavalents at end of year	**692**	859	943	1,964	2,644

Figure 7: Standard Statement of Cash Flows 2012/13

13.4 Standard statement of capital works

	Budget 2012/13 $'000	SRP 2013/14 $'000	SRP 2014/15 $'000	SRP 2015/16 $'000	SRP 2016/17 $'000
Capital works areas					
Land	**235**	-	-	-	-
Buildings	**1,923**	720	1,430	1,768	2,081
Roads	**4,448**	3,533	3,646	3,012	3,550
Footpaths	**-**	43	37	35	34
Bridges	**610**	484	417	385	432
Drainage	**126**	2	3	5	7
Furniture & Equipment	**315**	297	298	294	294
Plant & Machinery	**888**	1,010	1,012	1,001	1,002
Waste Management 1	**294**	-	-	-	-
Total capital works	**8,839**	6,089	6,843	6,500	7,400
Represented by:					
Asset renewal	**5,295**	5,176	5,817	5,675	6,752
New assets	**2,935**	304	342	275	216
Asset expansion/upgrade	**609**	609	684	550	432
Total capital works	**8,839**	6,089	6,843	6,500	7,400

Figure 8: Standard Statement of Capital Works 2012/13