



Strategic Financial Plan

2010/11 - 2019/20

Borough of Queenscliffe
November 2010

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EXECUTIVE SUMMARY

The objective of this Strategic Financial Plan is to provide an informative document outlining some of the dilemmas councils face, particularly the Borough of Queenscliffe and the specific difficulties faced by a small council.

It is also provided to set a framework within which council can refer both at annual budget time and throughout the year when faced with decisions which have financial implications - either short or long term.

It endeavours to explain in simple language the issues that affect the ongoing financing of council operations and management of council assets. It aims to provide a focus for the community to understand that annual budgets should not only consider the resourcing of service delivery and capital works programs in the short term, but should be set within the context of longer term financial sustainability.

The objectives set by a Council Plan and the growing expectations of a vibrant and involved community creates a significant dilemma for Council - how to keep rates low, how to maximise government funding, how to provide valuable cost-effective services and how to ensure the municipality's assets are well maintained and replaced when necessary. Aside from the economic challenges confronting Council there are continuing and growing demands for social and environmental outcomes - the triple bottom line approach - and these important issues are part of the mix when strategic planning goals are set.

Financial sustainability

Councils manage significant finances on behalf of their communities. The responsible management of these finances is essential for the council to continue to provide the services and facilities that are needed by the local community.

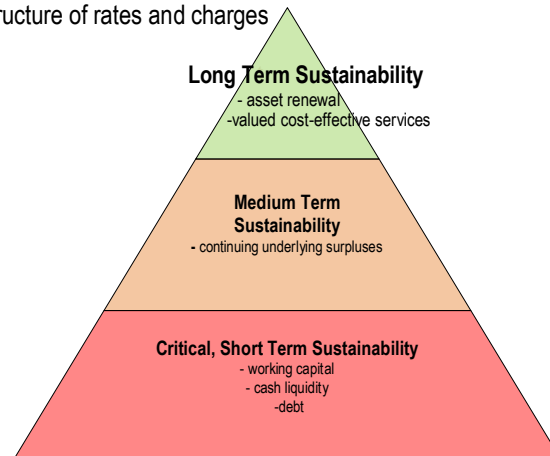
The Local Government Act (section 136) provides four principles of sound financial management for councils. All councils are required to implement these principles and establish budgeting and reporting frameworks that are consistent with the principles.

The principles of sound financial management require councils to:

- manage financial risks prudently, having regard to economic circumstances
- pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden
- ensure that decisions and actions have regard to financial effects on future generations
- ensure full, accurate and timely disclosure of financial information relating to the council

The financial risks that must be managed prudently include:

- the level of council debt
- commercial or entrepreneurial activities
- management and maintenance of assets
- management of current and future liabilities
- changes in the structure of rates and charges



In terms of financial sustainability, there are short and long term indicators that together provide a hierarchy to illustrate the issues upon which a financial strategy is based.

Summary of Recommendations

General:

1. That any decision of a financial nature consider the longer-term implications by referring to the Long Term Financial Plan (LTFP).
2. That on an annual basis, the Budget is based broadly on the relevant year in the LTFP.
3. That any additions to the current year budget throughout the year, have corresponding offsets (wherever possible) to ensure the projected bottom line is not severely impacted.
4. That the LTFP assumptions be reviewed on an annual basis in light of
 - any new information/government direction
 - the previous years financial results as they are finalised in the Annual Report
 - the annual review of the Council and Business Plans

Demographic Profile

1. That any planning and review of services take into account the changing age demographics and community needs in the Borough.

Operational

REVENUE

1. That, where possible, increases in fees & charges be implemented to relieve undue pressure on rates. Consideration to be given to the "user pay principle" where appropriate, in order to cover costs and also to the charges applied in the marketplace (through annual benchmarking).
2. That resources be applied to seeking as much external funding as possible to assist with program expenditure or new initiatives.
3. That applications for project grant funding only be sought if the contribution from Council does not severely impact on annual budgets either in the initial contribution or in ongoing operating costs.
4. That annual rate increases be at a level that will cover operating and service delivery costs plus the required contribution towards asset replacement.
5. That a rating strategy be undertaken to review differential rating levels including giving consideration to the community's capacity to pay, tourism and pensioner rebates

EXPENDITURE

1. That the breadth and level of services provided by council be reviewed and that options give consideration to other service providers in the region.
2. That a community consultation process be undertaken to establish the expectations, demands, gaps in services, deficiencies, types and quality of services with a view to rationalising and generating costs savings where appropriate.
3. That partnerships and alliances with other organisations in the region be explored with a view to achieving economies of scale and measureable expenditure savings.
4. That any surpluses at year end from operational savings not be carried into the following year as funds available in that years Budget, but rather they be transferred to the Asset Replacement Reserve, up to an agreed acceptable level, for future Capital Expenditure requirements.
5. That service delivery and operating costs take account of Best Value principles to ensure effectiveness and efficiency.

Debt Position

1. That low level debt be considered for any major new projects only when the annual servicing and redemption requirements do not severely impact on the rates budget.
2. That a range of debt ratios be considered along with the prudential guidelines when making decisions regarding debt.
3. That whilst council will consider all loan conditions on a case by case basis, the preference is that variable interest rate loans or shorter rollover term fixed interest loans be preferred on the basis that loans can be retired as and when an opportunity arises (such as through asset sales).

Debt Position (cont)

4. That if possible, through the review of asset utilisation (identified below in the Asset Management section), the Borough's remaining debt be repaid. This to be considered in light of current maturity dates, interest rates and any penalties that may be payable.
5. That Council continues to monitor debt ratios against the prudential limits set by Local Government Division and against other Councils within the Small Rural Council group and the State Average.
6. That the interest payable on the Unfunded Superannuation Liability be monitored and if the level increases beyond bank borrowing rates, that bank loans be sought to extinguish the liability.

Cash Holdings

1. That the working capital ratio and an adjusted working capital ratio be monitored as indicators of liquidity on a regular basis and as part of the quarterly reporting to Council and the community. The adjusted working capital ratio to be net of restricted cash and restricted debtors.
2. That long term financial planning ensures that the working capital ratio does not fall below 110%.

Asset Management

1. That the recommendations and directions from the Asset review and subsequent Asset Plans be "modelled" in the LTFP and presented to Council for consideration..
2. That wherever possible the annual allocation for maintenance and renewal of council assets be included in council Budgets and in the long-term financial plan.
3. That any surplus from this annual allocation to assets not required in any one year be reserved for the years when expenditure is required (into an Asset Replacement Reserve.)
4. That a review of building asset utilisation be carried out and that the following be considered:
 - the condition of the asset
 - the usage and return on the asset
 - the possible co-location of community groups who utilise the asset
 - the potential usage and return on the asset if investment in the asset occurs
5. That assets that are in poor condition, duplicatory and deemed to be no longer required or well utilised, be disposed of by sale or demolition, provided the community usage of such assets is able to continue satisfactorily at alternative locations.
6. That the proceeds from asset sales be directed towards other assets, or towards debt redemption but not used as a revenue source to fund operational costs
7. That depreciation rates for all Council asset categories be continually monitored to ensure they reflect the useful lives of those assets.
8. That average annual capital expenditure keep pace (over time) with the annual depreciation expense amount (as a minimum), to ensure council's asset value is not eroded on the Balance Sheet. and that this be considered as **one** of the measures to assess annual capital expenditure requirements over time.

PART 1 – BACKGROUND

Introduction

Council in recognition of its accountability and financial responsibility to the community has developed an overarching financial strategy. It is appropriate that this strategy is continually maintained, reviewed and updated. As part of the Corporate Planning and Budget process this is an obvious time for Council to discuss and review its financial strategy.

The Strategic Financial Plan provides the framework and determines guidelines for future years' financial management decisions. It contains the Council's commitment to responsible financial management. It examines options in terms of strategic direction and includes recommendations to achieve outcomes that will result in a sustainable financial position. It aims to place a structure for financial decision making at a very high level by providing guiding principles for the short, medium and long term. It is important to note that a Strategic Financial Plan is a **macro view of the financial structure**. It is not a document that indicates on what services/proposals funds should be allocated, rather it addresses areas that impact on the Council's ability to fund its services and Capital Works, whilst financially sustaining the organisation into the future.

The Long Term Financial Plan (LTFP), provides a 10 year budget perspective based on some assumptions around the key elements that ensure financial sustainability.

A 10-year financial plan incorporates:

- Forecast Operating Statements (including the underlying operating position)
- Forecast Balance Sheets
- Forecast Statement of Cash Flows

The Council's 2010/11 Annual Operating & Capital Budgets, are included as Year 1 of the 10 year financial plan and are the base upon which future years are estimated.

This Strategic Financial Plan should form part of Council's Corporate Planning framework. As the annual review of Council's Corporate Plan leads in to the preparation of the annual Budget, so too should the Strategic Financial Plan be updated and referred to prior to any Budget deliberations.

The development of a LTFP needs to be based on estimates which attach to a range of assumptions. Modelling of different scenarios will assist the development of a financial direction which will include a combination of measures such as rate increases, other revenue and expenditure assumptions, service delivery and resource requirements and differing levels of asset management assumptions.

Whilst an LTFP is included in this Strategic Financial Plan, the modelling referred to above needs to be considered in the 2011/12 Budget and the required 4 year Strategic Resource Plan that accompanies the budget document.

Profile

The Borough of Queenscliffe is comprised of the small seaside towns of Queenscliff and Point Lonsdale and is the smallest local government area in Victoria (10.83 square kilometres).

The predominantly urban Borough has remained intact since being created on 12th May 1863.

The Borough of Queenscliffe has a permanent population of around 3,256 and up to 12,000 in peak holiday times. Many property owners only holiday or live part-time in the Borough. The 53% of private dwellings unoccupied during the 2006 census is indicative of the large temporary population.

One of the Borough's main service deliveries is home and community care services as a high percentage per population (32.2%) of residents are aged over 65.

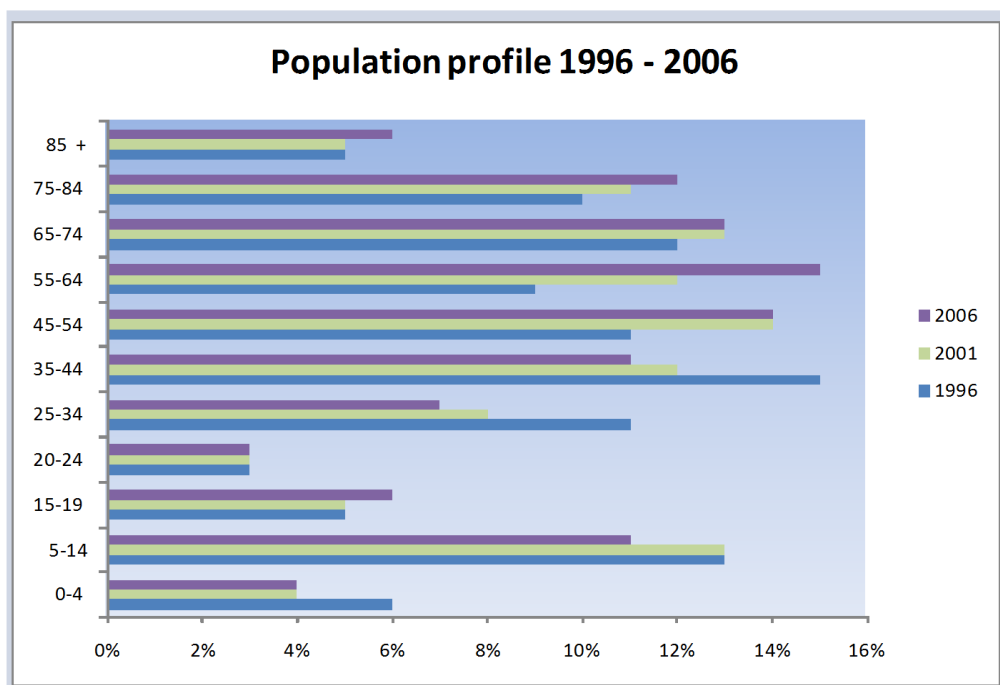
Demographics and Growth Rates

The Borough has experienced a very stable population in recent decades. While retirees are attracted in relatively large numbers, the Borough is expected to continue to experience a net loss of young adults through migration. Many young adults will be seeking employment, educational and lifestyle opportunities closer to Geelong or Melbourne.¹

The overall effect will be in an ageing of the population of the Borough to 2021. The ability for the Borough to attract younger families is also limited by the lack of new greenfield property development compared to nearby areas.

Changes in age structure of Queenscliffe residents have been occurring over the past 15 years and are projected to continue into the future. The numbers of people 45-65 years as indicated in the population profile chart below represents 60% according to the 2006 Census.

Catering for the differing needs of an ageing population will continue to be a challenge for the Borough. The high levels of visitor numbers also creates a dynamic which affects the towns in the municipality in terms of business and tourism and therefore the longer term planning required by council.



31% over 65 yrs of age in 2006

29% in the 45-64 age group

Source: Australian /Bureau of Statistics Census 2006

Council needs to be dynamic in its response to the needs of a changing customer base. Planning for changes to the level of services provided also means recognition of costs associated with any changes and this therefore becomes an element in strategic financial planning.

Recommendation:


1. That any planning and review of services take into account the changing age demographics and community needs in the Borough.

¹ Population and Household forecasts - id consulting pty ltd

PART 2 – FINANCIAL HEALTH and FINANCIAL SUSTAINABILITY

In terms of financial health at any point in time, an organisation's condition can be measured by the following:

- Underlying operating result
- Cash holdings
- Level of Debt
- Condition of assets




Are we
healthy?

The first three can be found in the Annual Financial Statements in the Balance Sheet. The fourth element is not found in reports but may be obvious to residents and visitors. A Balance Sheet is a statement of financial position at a given point in time (30 June) and therefore could give some indication of financial health to the reader.

In order to determine whether the organisation is financially sustainable however, trends and future estimates need to be examined.

To be financially sustainable the following would need to be assessed:

- the **ability to generate** underlying surpluses
- the estimates of cash holdings
- Future / anticipated debt position
- the ability to renew assets



Are we
sustainable?

Underlying Operating Result

Comments and analysis on the following are to provide an indication of current practices and strategies that affect the generation of underlying surpluses or deficits.

RATE REVENUE
FEES & CHARGES
GOVERNMENT GRANTS
OPERATING EXPENDITURE
DEPRECIATION

It should be noted that the "underlying" result is the reported surplus under current accounting standards and regulations adjusted by the removal of gifted assets, developer contributions, asset revaluations and write offs and the impact of the sale of fixed assets. Capital income has also been deducted on the basis that this represents an 'unmatched' income, with the expenditure not being included, and because Capital income is a non-recurring income source. The aim has been to reach the underlying 'operational' position and then to assess whether this had added to the net asset base of Council or eroded this base.

Through the annual budget process, the funding required to deliver all services, manage assets, upgrade and replace infrastructure and carry out all other local government functions is determined.

Council takes into account money received from fees and charges and government grants and the balance is collected in rates.

RATE REVENUE

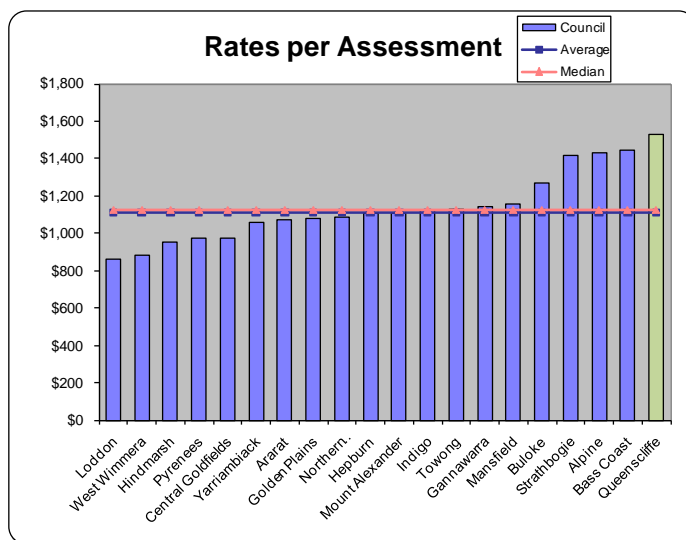
Property values are officially assessed every two years, a State Government requirement. The valuations are the mechanism used to distribute the rate burden across all property owners. The amount of rates property owners pay is dependent on the value of their particular property.

If some residents have to pay more in rates because the value of their property has increased, it does not mean the total amount of rates collected by Council increases. It means other residents will pay less. The value of properties is the mechanism with which councils distribute the total rates they require to operate.

The following graph shows the average Rates per Assessment paid by households in the Borough compared to other Small Rural Councils. Note: whilst the Borough of Queenscliffe is the smallest in Victoria, it is more urban than it is rural. It is quite unique and therefore benchmarking with any other Councils is difficult in many respects.

The Local Government Division of the Department of Planning and Community Development categorises all 79 Victorian Councils into 5 groups and Queenscliffe is grouped with 20 other Councils as "small rural". For further information on Council Groupings and other specific benchmarking data please see Appendix A at the end of this report.

Average Rates per assessment 2008/09	\$'s per ass'ment
<i>Small Rural Councils</i>	
Loddon	\$860.00
West Wimmera	\$884.00
Hindmarsh	\$955.00
Pyrenees	\$973.00
Central Goldfields	\$976.00
Yarriambiack	\$1,059.00
Ararat	\$1,069.00
Golden Plains	\$1,081.00
Northern Grampians	\$1,085.00
Hepburn	\$1,110.00
Mount Alexander	\$1,110.00
Indigo	\$1,124.00
Towong	\$1,129.00
Gannawarra	\$1,140.00
Mansfield	\$1,158.00
Buloke	\$1,271.00
Strathbogie	\$1,417.00
Alpine	\$1,433.00
Bass Coast	\$1,443.00
Queenscliffe	\$1,527.00
Average	\$1,061.50
Median	\$1,083.00



Average rates per assessment vary substantially across the State - from \$860 to \$1,664 (excluding the City of Melbourne). Queenscliffe has been at the high end for a number of years and is \$84 higher than the next highest in the Small Rural category.

As with any municipality, there are pockets where rates are higher than others depending on the value of the property, as mentioned previously.

To put rate rises into context, a 1% rate increase in the Borough provides around \$50,000 to Council in an Annual Budget. Based on the *average* rates per assessment this equates to approximately \$81 or \$1.57 per week.

Also to be considered, is the rating in neighbouring municipalities, in particular the comparable rates and charges for similar valued properties. The average CIV in the Borough is around \$623,000 and the table below illustrates the total rates and charges on a property of that value across the three councils.

	QUEENSCLIFFE	COGG	SURFCOAST
Average Capital Improved Value = \$623,000	\$1,435.33	1,593.63	1,354.46
Municipal Charge		82.30	150.00
Garbage Charge		199.00	308.00
		1,874.93	1,812.46
% above BOQ Rate Charge		30.63%	22.95%

Municipal charges and a separate garbage charge are not included in the Borough, the general rate is used on all residential properties. The introduction of these separate fixed charges would not necessarily increase the total rate income to council but rather recalculate the general rate and distribute the rate burden differently. These and other differential rating options should be a consideration when council re-visits an overall rating strategy.

The current Council Plan includes a Strategic Resource Plan (SRP) which is required under the Local Government Act (1989). In that SRP, rate increases over the 4 year Council Plan are indicated as follows:

2009/10	3.5%
2010/11	4.5%
2011/12	4.5%
2012/13	4.5%

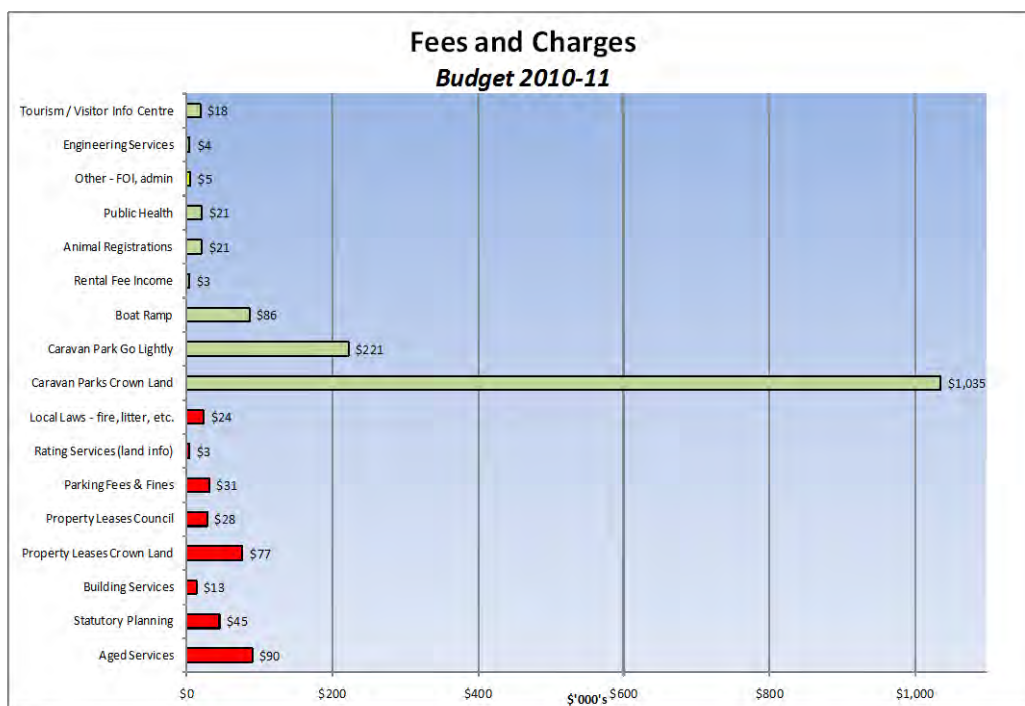
These were provided as indicative increases only as Council makes this decision and declaration as part of the statutory processes involved in preparing each annual Budget. The capacity to increase rates to any significant extent is limited given the high levels already. The community's capacity to pay is an important consideration and the issue of differential rates and charges should therefore be explored.

It should be re-emphasized, that this would mean a shifting of the rate burden not a decrease in overall rate income and just as some ratepayers may have the benefit of lower rates, other residents would pay more. However, the concept deserves further exploration, including significant community consultation.

FEES AND CHARGES

Many councils across the State have the benefit of revenue generated within their municipality from other than rates. Those fortunate enough have large entrepreneurial activities or, in the case of the Melbourne Metropolitan Councils, large income streams from parking fees and fines, are able to ease the pressure on ratepayers in terms of funding service delivery and statutory compliance requirements.

In the Borough over 20% of annual revenue is generated through fees and charges. Each year at Budget time these fees are benchmarked to ensure charging is in line with other service providers. Many of the fees are not within the control of Council in that they are legislated by Government or are means tested. The following chart shows the fees and charges and denotes which are within control of Council.



Of the \$1.725M income from User fees and charges, \$311M is affected by legislation either in terms of a regulated fee or via means test (eg: Aged Care services). The remaining \$1.4xx are charges within Council's discretion that are generally benchmarked against other service providers or have increases applied in line with cost increases.

■ Discretionary
■ Non-discretionary (legislative restrictions)

As the chart illustrates, the large majority of fee income comes from the Caravan Parks in the Borough. The red bars indicate those items that cannot be annually adjusted (although long term leases of Council facilities can be, when they are due for renewal).

Council publishes a Fees and Charges schedule in preparation for the new financial year. The "user-pay" principle is adopted with some discount for local and non-profit organisations in terms of the use of Council facilities.

GOVERNMENT GRANTS

Grants from the Federal and State governments are provided to Councils for Capital projects, for recurrent program expenditure and also as untied grants to assist with general operating, compliance and administrative functions.

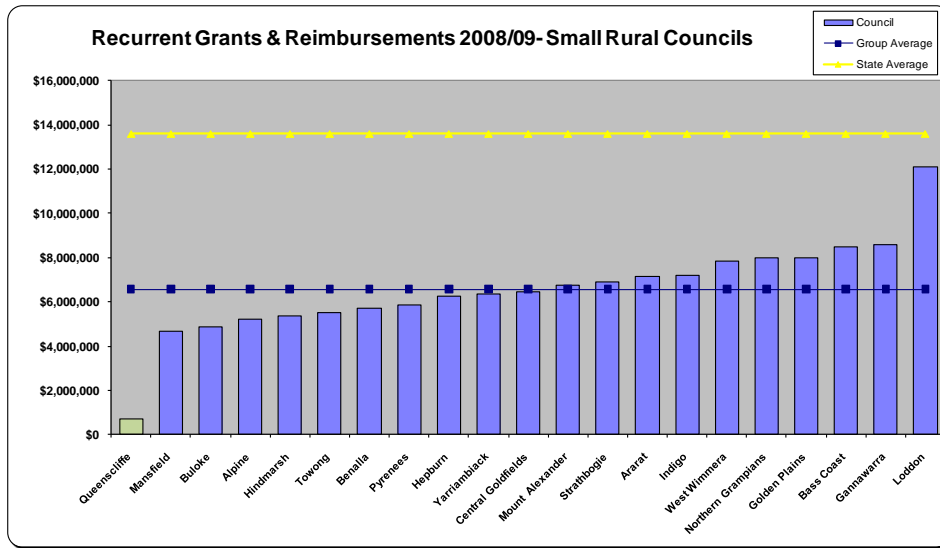
There are also opportunities to access project grants - capital and operating - where Council contributes on a dollar for dollar basis (can be 2:1 or sometimes 3:1).

Often the dilemma in deciding whether or not to access funding opportunities is the longer term financial effects associated with Council having to, fund the program after the initial seed funding is spent, or the ongoing operating costs associated with the introduction of a new program or facility. After the initial year of funding the ratepayer is then faced with funding future years operations.

Untied government grants come from the Victorian Grants Commission (VGC) which in turn is funded through the Commonwealth Grants Commission. After the federal funding is distributed to the States, the VGC distributes an annual allocation to the 79 Victorian councils.

Part of the formula that drives the distribution of these grants relates to population. The VGC also allocate an annual grant for local roads. Given the size of the Borough, the amount received each year is significantly less than any other council in the State. The VGC visits Council each year and despite repeated advocacy on ratepayers behalf, the fact is that the Borough receives the "minimum" grant available by a material margin. With little

possibility that the population of the Borough will increase significantly, the longer term financial planning allows for little increase in this revenue.



The major difference in funding other Small Rural councils is the large road networks in rural Victoria. The Borough has 40 kms of local roads. (Note: non-local roads, that is, main roads, are the responsibility of VicRoads).

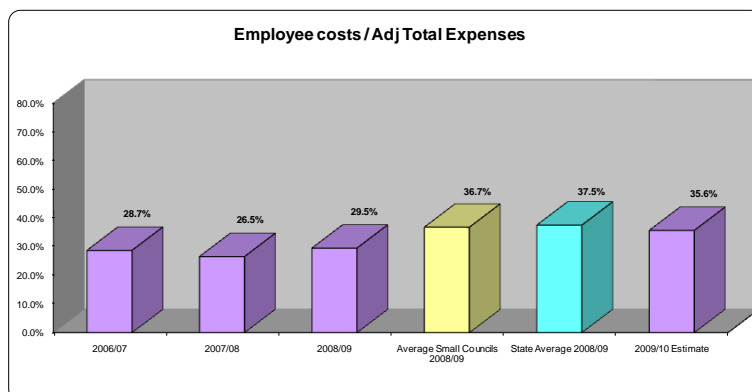
OPERATING EXPENDITURE / SERVICE PROVISION

Prior to 2009, a large proportion of Council programs and operational functions was undertaken by external contractors. The emphasis on contracted services commenced around the period that the State Government introduced Compulsory Competitive Tendering (CCT) in the mid 1990's. At this time the State Government legislation required each Council to tender out approximately 20% of its activities. At the Borough, many of the administrative functions have been outsourced since that time.

In late 2008 there were significant changes in the staffing within the Council administration. The first stage of an organisational review saw the restructure bring many of the outsourced functions 'in-house'. Recruitment to the new Council positions was completed by mid 2009.

One major test associated with external contractors and the transition to Council staff has been the loss of intellectual capital from the organisation. Records management has been a time consuming task and the difficulties associated with a lack of knowledge and corporate and community history are some of the major challenges for new staff.

Employee costs make up approximately 30% of total expenses. Whilst this is below the average for Small councils it should be noted that this indicator should be used with caution. The use of contractors at other Councils as well as the Borough of Queenscliffe can skew the percentage. Also the level of service in labour intensive programs (such as Aged Care services) can differ widely across councils.



In such a small municipality, the use of external contractors and consultants is still a reality with many one-off projects being undertaken with external expertise. Where it is deemed to be more cost-effective, some of the functions carried out by contractors continue to be situation at the Borough. Examples of these are:

- parks and gardens maintenance
- waste disposal and recycling
- public convenience cleaning
- home maintenance (Aged care services)
- maternal & child health services
- valuations contract
- heritage and building control
- weed control and revegetation
- information technology
- town planning assistance/expertise

The remaining functions that are carried out by council staff are:

- aged & disability services
- local laws
- engineering
- tourism & events
- environmental health
- school crossing supervision
- statutory planning
- community development
- sustainability & environment
- caravan park and coastal management
- customer service officers
- CEO/ General management
- Executive & Governance support

There are 48 staff on the payroll many of whom are part-timers, the equivalent full time staffing is 32.2. Of the 48 staff approximately 25 are office based.

Legislative compliance in Local Government is a major function with an increasing amount of regulatory and statutory requirements being introduced.

Undertaking the delivery of cost effective services to the community within the constraints imposed by compliance issues will be an ongoing challenge for Council. Part of the current organisational review has been the combination of several functions to enable Council to recruit to newer areas of demand (specifically the Sustainability and Environment portfolio.)

The increased emphasis on appointment of Council staff has also resulted in greater accountability for Council programs and services. Critical improvements have been achieved in relation to:

- Community participation in Council decision making
- Developing corporate risk management review, monitoring and reporting systems
- Supervision, monitoring and reporting of contracted services
- Tracking, implementing and reporting on Council resolutions
- Long term financial planning
- Statutory planning systems
- Submission writing and attracting funding from other levels of Government

System based solutions to cumbersome or time-consuming processes have also been implemented with application software improvements. Procedures have, and continue to be, reviewed in all areas of administration.

Position descriptions are reviewed annually as part of the staff performance appraisal process and any

opportunities to improve and streamline the organisational structure are implemented. Performance objectives and goals are set for staff for the coming year at annual reviews.

DEPRECIATION

As an expense in the Income Statement, depreciation is an item that has considerable effect on the underlying operating result.

Depreciation is a term used to describe a method of attributing the historical or purchase cost of an asset across its useful life.

Councils are required to revalue their assets regularly in much the same way properties in a municipality are revalued every two years. As the value of council assets increase or decrease over time so too does the calculation of their useful lives change. Asset management involves "condition based assessments" that assist in determining the remaining useful life of an asset and as such re-calculates the depreciation rates applicable.

The depreciation rates or more importantly, the resulting total depreciation expense becomes the measure or benchmark that council uses when measuring its effort in renewing/replacing its assets as and when they are due.

Depreciation as a percentage of total assets is an indicator used in benchmarking, but the more targeted ratio is Depreciation on Infrastructure assets as a percentage of total Infrastructure assets. In this context infrastructure assets are denoted as the unrealisable assets Council has to maintain.....those items like roads, footpaths, drains etc. Land and buildings are not included as non-realiseable assets.

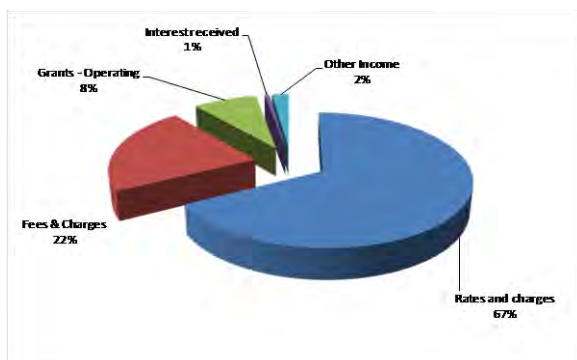
Though not included as infrastructure council still uses depreciation as a measure for planning the maintenance and replacement of Council buildings. An asset management review of council buildings has been recently undertaken and the resulting financial impact over the long term will enable Council to be better informed when making decisions about financial planning into the future.

Measuring depreciation against Capital expenditure is further explored in the Capital Works section.

A more expansive commentary on Asset Management in general is contained in PART 2 of this document.

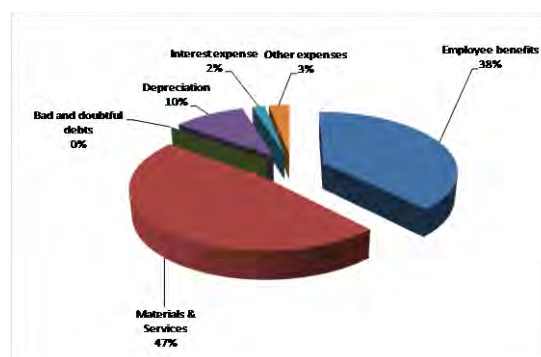
SUMMARY

The pie charts below indicates the major revenue and expense items in the Borough's financial structure:



Whilst Council is heavily reliant on rates at 67% of total revenue, this does provide Council with a secure form of income that it alone controls.

Though employee costs and materials & services together account for 85% of Council's expenditure, the move to in-house staff has generated significant savings that have enabled other demands and priorities to be addressed.



Recommendations:

1. That, where possible, increases in fees & charges be implemented to relieve undue pressure on rates. Consideration to be given to the "user pay principle", where appropriate, in order to cover costs and also to the charges applied in the marketplace (through annual benchmarking).
2. That resources be applied to seeking as much external funding as possible to assist with program expenditure or new initiatives.
3. That applications for project grant funding only be sought if the contribution from Council does not severely impact on annual budgets either in the initial contribution or in ongoing operating costs.
4. That annual rate increases be at a level that will cover operating and service delivery costs plus the required contribution towards asset replacement.
5. That a rating strategy be undertaken to review differential rating levels including giving consideration to the community's capacity to pay, tourism and pensioner rebates
6. That the breadth and level of services provided by council be reviewed and that options give consideration to other service providers in the region.
7. That a community consultation process be undertaken to establish the expectations, demands, gaps in services, deficiencies, types and quality of services with a view to rationalising and generating costs savings where appropriate.
8. That partnerships and alliances with other organisation in the region be explored with a view to achieving economies of scale and measureable expenditure savings.
9. That service delivery and operating costs take account of Best Value principles to ensure effectiveness and efficiency.
10. That any surpluses at year end from operational savings not be carried into the following year as funds available in that year's Budget, but rather they be transferred to the Asset Replacement Reserve, up to an agreed acceptable level, for future Capital Expenditure requirements.

Cash holdings

At 30 June 2009 the Borough's balance sheet showed a cash amount of \$1.68m. Though on the face of it, this is a reasonable amount for a Council with a \$7.6m budget, this amount includes some restrictions. At the end of the financial year there is inevitably unfinished capital works projects so part of the cash balance will go to paying the balance remaining on those projects. There is also an amount set aside to provide for employee benefits - annual and long service leave. Councils may also have reserve funds that are part of the normal cash in bank but are earmarked for specific projects. Some reserves are legislated under, for instance, the Recreation Lands Act where developers are required to pay Council an amount to fund open space in any development.

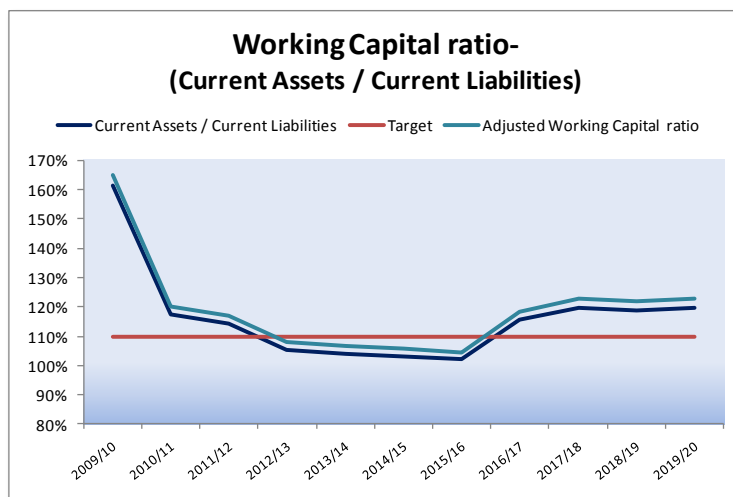
In Queenscliffe the Crown Lands reserve is used to ensure any funds generated by Crown Land based activities are spent on Crown Land.

At 30 June 2009 the total in the reserve ear-marked for Crown Land projects was \$402,755. This forms part of the total cash figure but is considered "restricted" cash.

Prior to the refurbishment of the Municipal Offices, Council embarked on a financial strategy that included loan borrowings plus accumulation into a reserve plus asset sales. The cash balance at the end of 2006/07 and 2007/08 was nearly \$3m. On completion of the Office project, the final transfer of funds out of the cash reserve was effected and thus cash that had been accumulated was expended.

The Crown Land reserve also had an accumulation of funds until 2008/09. The 2009/10 Budget designated the bulk of these funds be expended on projects leaving an estimated \$38k in the reserve. The depletion of reserves has had a concerning impact on the working capital ratio (current assets divided by current liabilities)

As part of the Annual Budget process, Council ascertains how much money is required to deliver all services, manage assets, upgrade and replace infrastructure and carry out all other local government functions. Council takes into account money received from fees and charges and government grants and the outstanding requirement is collected in rates. The rates budget is based on a break-even cash result in that the total of rates, fees & charges, government grants and any other revenue equals the amount of expenditure required including capital works expenditure and loan principal repayments.



Whilst the working capital ratio indicates above 100% each year, it is good practice to ensure a level of at least 110%, if not more when planning into the future. The years 2013 to 2016 are concerning. In 2016/17 some of Council borrowings are fully repaid and the ratio improves.

Note the recommendation from Local Government Victoria is for at least a 120% result in this ratio with less than 100% attracting a red light and between 110-120% as a cautionary zone.

Annual reports (annual financial statements) are required to state the councils results against a number of ratios including an "adjusted" working capital ratio which excludes the Long Service Leave provision amount that is included in Current Liabilities. The adjusted ratio better reflects the actual short term liquidity situation and should be monitored and reported on. The Auditor-General ratios included in Annual Reports include both working capital ratios.

Recommendations:

1. That the working capital ratio and an adjusted working capital ratio be monitored as indicators of liquidity on a regular basis and as part of the quarterly reporting to Council and the community.
The adjusted working capital ratio to be net of restricted cash and restricted debtors.
2. That long term financial planning ensures that the working capital ratio does not fall below 110%.

Debt position

The use of debt financing for capital projects needs to be managed to ensure that the burden of debt is manageable within forecast income and expenditure limits. Prudential ratios recommended to maintain ongoing financial stability are set under Loan Council (Government) guidelines. Queenscliffe's ratios are well within these guidelines.

Determining the limits in relation to debt management is not an easy task. The level of comfort regarding debt can be a very individual thing, with private companies also varying greatly in debt/equity ratios. For Councils there are many factors involved including:

- The level and certainty of rate revenue
- The level and continuity of non-rate revenue
- Future funding requirements (for major projects)
- The level of realisable assets to support the indebtedness

Thus, prudential ratios are used, and required to be reported on, in Annual Reports each financial year.

The three principle prudential limits are:

- Debt Servicing (Interest repayments) as a percentage of Total Revenue should not exceed 10%.
- Total Indebtedness as a percentage of Rate Revenue should not exceed 100% (Councils are required to demonstrate long-term strategies to reduce indebtedness prior to undertaking further borrowings.)
- Working capital ratio (Current Assets/Current Liabilities) to remain in excess of 1.0

These and other indicators provide the opportunity to plot trends over a period and also to compare Council with other Councils in the Small Rural Council grouping and across the state. The principles governing debt may be similar in commercial terms but differ in many respects in government particularly when taxation and tax deductibility is considered - the only tax Local Government pays is payroll tax (and GST). Debt at councils, unlike the private sector, can be a direct impost on ratepayers.

The supporting argument to undertake borrowings is that future ratepayers pay for the asset they are benefiting from and thus it is common practice for Councils to borrow for major new Capital projects or major refurbishment of existing facilities.

Outstanding debt at 30 June 2010 is estimated to be \$1.62m. The interest and principal payments in 2010/11 will be \$.125m and \$.241m respectively. The total cash requirement from the 2010/11 budget is therefore \$.366m.

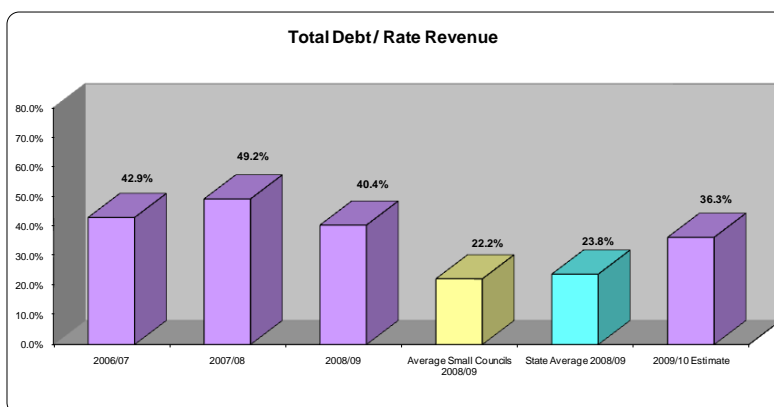
The trend across the Inner Metro Councils has been to repay debt with many councils being debt free until 2008/09 when only two councils remain debt free at 30 June 2009. There were only 3 of the 21 Small Rural councils who were debt free at 30 June 2009.

Queenscliffe's debt as a percentage of total Rate revenue is predicted to be 28.4% at 30 June 2011. The amount of "interest bearing liabilities" in the Balance sheet will be adjusted by the annual decrease through debt redemption (principal repayments) plus an addition of \$60k for an actuarial revaluation of the unfunded superannuation liability for past employees who were covered by the now closed defined benefits superannuation scheme.

In terms of longer term predictions regarding this superannuation liability, it is almost impossible to estimate whether any further "calls" will be made by the superannuation fund or the potential interest rates that may be charged on any outstanding balance. As with Superannuation funds across the country, the global financial crisis has affected performance of the Local Government fund.

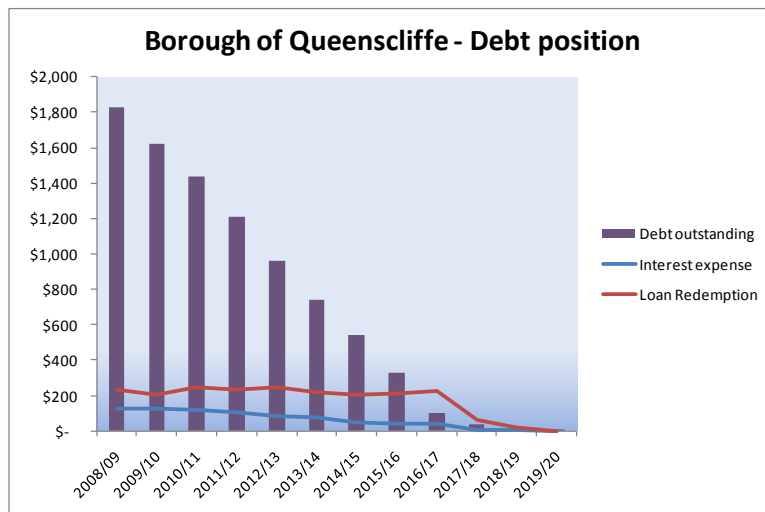
The table below provides six different debt ratios and how the Borough is ranked within the Small Rural Council group.

Council	Debt Servicing / Total Revenue	Debt Commitment / Rates	Total Debt / Realisable Assets	Debt Commitment / Own Source Revenue	Total Debt / Own Source Revenue	Total Debt / Rate Revenue
Hindmarsh	0.14%	1.35%	10.98%	0.97%	0.00%	0.00%
Towong	0.06%	1.87%	0.00%	1.54%	0.00%	0.00%
West Wimmera	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Buloke	0.08%	2.33%	15.03%	2.07%	1.50%	1.69%
Ararat	0.10%	1.96%	7.53%	1.67%	1.59%	1.87%
Yarriambiack	0.14%	3.45%	1.23%	2.77%	4.60%	5.73%
Alpine	0.38%	2.93%	9.23%	2.39%	5.94%	7.29%
Golden Plains	0.40%	3.52%	12.32%	2.82%	10.23%	12.75%
Mount Alexander	0.53%	4.81%	13.62%	3.91%	11.68%	14.37%
Loddon	0.31%	2.63%	11.01%	1.96%	10.81%	14.51%
Bass Coast	0.74%	3.85%	8.16%	3.23%	15.45%	18.40%
Pyrenees	0.49%	4.42%	3.40%	3.67%	17.15%	20.66%
Northern Grampians	0.51%	6.06%	4.18%	4.77%	19.51%	24.77%
Indigo	0.82%	9.45%	9.39%	5.84%	17.49%	28.32%
Hepburn	0.98%	5.05%	11.64%	4.19%	26.65%	32.10%
Strathbogie	1.27%	7.07%	6.06%	5.98%	30.25%	35.75%
Mansfield	1.50%	8.28%	18.46%	7.39%	33.30%	37.27%
Gannawarra	1.18%	7.79%	15.39%	6.33%	31.51%	38.80%
Queenscliffe	1.69%	7.58%	5.28%	5.50%	29.25%	40.37%
Benalla	2.08%	10.18%	15.74%	8.46%	41.88%	50.39%
Central Goldfields	3.27%	16.60%	10.76%	12.88%	63.21%	81.42%
Average	0.67%	4.73%	8.93%	3.77%	15.44%	19.25%
Median	0.50%	4.14%	9.31%	3.45%	13.56%	16.45%
State Average (excl Melb)	0.87%	5.05%	9.24%	3.93%	18.53%	23.80%
Ranking	19	16	6	15	16	19



As rates revenue increases and outstanding debt decreases the ratio above will fall away. Lower debt levels give council the capacity for future borrowings as the need arises for major capital spending.

The annual costs of debt servicing and redemption will continue until all loans are repaid. Council has four different loans of varying amounts and varying interest rates. The following graph shows the declining debt balance over the next eight years as each loan is retired.



Recommendations

1. That low level debt be considered for any major new projects only when the annual servicing and redemption requirements do not severely impact on the rates budget.
2. That a range of debt ratios be considered along with the prudential guidelines when making decisions regarding debt.
3. That whilst council will consider all loan conditions on a case by case basis, the preference is that variable interest rate loans or shorter rollover term fixed interest loans be preferred on the basis that loans can be retired as and when an opportunity arises (such as through asset sales).
4. That if possible, though the review of asset utilisation (identified below in the Asset Management section), the Borough's remaining debt be repaid. This to be considered in light of current maturity dates, interest rates and any penalties that may be payable. That Council continues to monitor debt ratios against the prudential limits set by Local Government Division and against other Councils within the Small Rural Council group and the State Average.
5. That the interest payable on the Unfunded Superannuation Liability be monitored and if the level increases beyond bank borrowing rates, that bank loans be sought to extinguish the liability.

Asset Management

INFRASTRUCTURE RENEWAL

In December, 1998 the Department of Infrastructure (Local Government Branch) released a Report entitled "Victorian Local Government Infrastructure Study – Facing the Renewal Challenge", with the objectives of the Study being to:

- Determine the ability of Councils' to meet long-term investment needs in the renewal and acquisition of infrastructure assets.
- Develop a model for examining the challenges of the task.
- Make recommendations to improve the management of Victorian Local Government infrastructure assets.

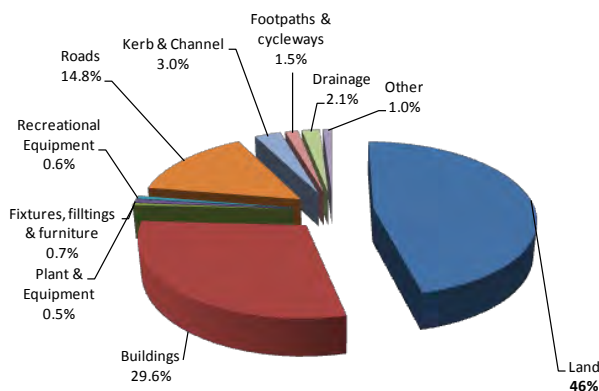
The Report acknowledged the difficulties that councils would face in endeavouring to address infrastructure requirements with the following comment:

"Councils all over Australia are now facing the problem of aging assets in need of renewal. Many of these assets were never funded by the Councils in the first place, but came by way of grants (State or Commonwealth); from developer contributions or from a shift of responsibilities for previously State owned assets to Local Government. Councils have never had to size their budgets for the acquisition of these assets, however they will have to do so as the assets approach the time of renewal. Had Councils been responsible for funding all of their infrastructure, it is highly likely that

they would have acquired less. Moreover their rate levels would have been increased to meet the needs of asset acquisition and some of this higher level of rate revenue may have been continued on to be available for renewal. As it is, Councils now have to prepare for increased funding to meet the needs of asset renewal."

Whilst this quote and the report it came from is well over ten years old, the message and the challenge for many Councils has not changed a great deal.

Assets in the Borough are largely land and buildings which together make up over 75% of the total. The 40kms of roads in the Borough represent 15% of the total.



In October 2007, the Borough had road assets examined and the results were reviewed in March 2010 by Moloney Asset Management Systems. The general condition of the Borough's road assets is considered to be very good.

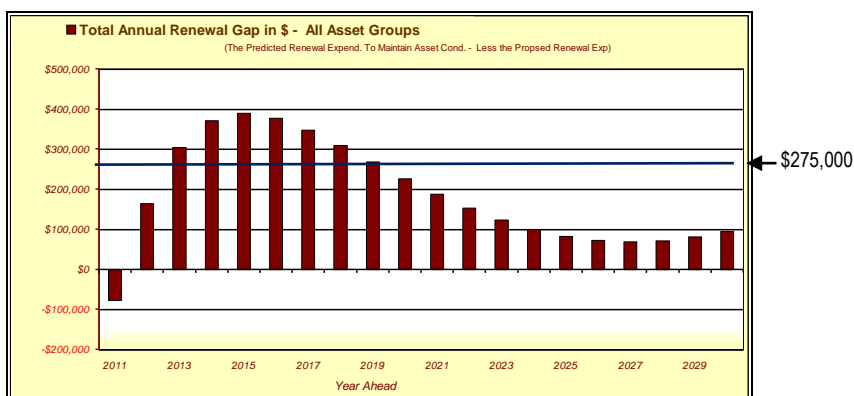
"The sealed road pavements are old but remain in excellent condition largely because of the good subgrades within the district "

The report noted that the condition of footpaths and kerb & channel was good and fair respectively and that both were in general slight decline. (A list of the major findings of the report are at Appendix D).

BUILDINGS / FACILITIES

A review of Council's building assets has also recently been undertaken by CT Management :*"Building Asset Management and Condition Review."*

The following graph is a depiction of the spending required on Councils building assts over and above that currently spent annually.



The challenge over the next 5-7 years will be to budget for sufficient expenditure on building refurbishment / renewal for those buildings identified as requiring works. Peaks and troughs will always occur as the age and condition of all facilities are managed and maintained.

To eliminate the inconsistent and erratic requirement in annual budgets many councils use a reserve to accumulate funds until such time as individual assets are due for major expenditure. This practice also enables a smoother and more stable budget process and less peaks and troughs in applying rate increases.

The CT Management report assessed all of the Borough's building assets and determined that on average Council needed to be spending \$275,000 more annually than is currently the case. The graph above shows a shortfall commencing in 2012/13.

Until such time as further reviews are carried out in terms of asset rationalisation, this figure should be used to financially plan for future expenditure in current budgets.

The 2010/11 Budget provides for \$418,000 against asset renewal, of which \$113,000 is for buildings. With the requirement for building renewal funds growing in the next 5-7 years the 2010/11 budget allocates \$171,000 into an asset replacement reserve for those future years. Council's commitment to asset management needs to continue with this practice to even out the differing annual expenditure requirements and better plan the annual budgets.

PROPERTY ASSET SALES

Land comprises:

- ⇒ road and drainage reserves
- ⇒ pocket parks and walkways
- ⇒ land with buildings/facilities leased or used by other organisations and groups (eg Camp Wyuna)
- ⇒ caravan park (Golightly)
- ⇒ car parks
- ⇒ other land parcels such as Murray Road

Buildings comprise:

- ⇒ Municipal offices and Town Hall
- ⇒ Visitor Information Centre/Library
- ⇒ Neighbourhood house
- ⇒ Monahan centre
- ⇒ Toilet blocks
- ⇒ Bus shelters
- ⇒ Maritime Museum
- ⇒ Historical Museum
- ⇒ Various sheds and pavillions
- ⇒ Senior Citizens Centre
- ⇒ Sea Scouts building

The assets in the building category are a combination of buildings on council land and council owned buildings on either Crown Land or land owned by other authorities.

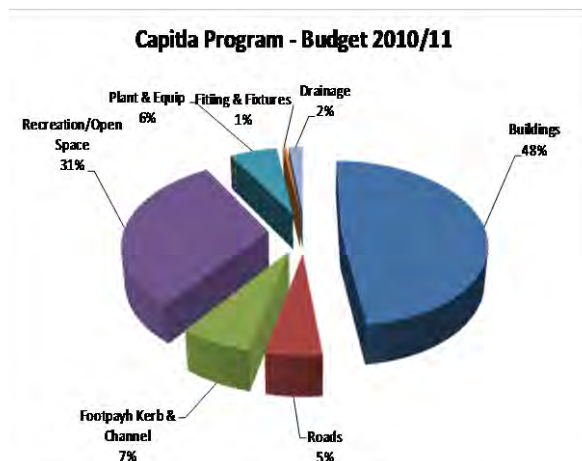
The short term requirement in terms of expenditure on building assets needs to be carefully analysed. Devoting funds to assets that have no long term need is not desirable and thus a strategic approach to asset rationalisation is required. A holistic review involving extensive community input essential and should consider the social and environmental objectives as well as the economic necessities.

The Long Term Financial Plan (LTFP) shows the operating result with no property sales. It is recommended that Council should ensure underutilised assets with no strategic worth are disposed of and the proceeds of such sales not be budgeted as a revenue source to fund recurrent operations

CAPITAL WORKS

The Long-Term Financial Plan indicates that the annual cash operating surplus over the next ten years is as follows. This is the amount in the annual budget after all revenues and recurrent operating expenditures are taken into account and therefore the amount available for capital works or new initiatives.

Year	\$'000's
2010/11	\$ 1,756
2011/12	\$ 1,033
2012/13	\$ 1,294
2013/14	\$ 1,322
2014/15	\$ 1,507
2015/16	\$ 1,601
2016/17	\$ 1,666
2017/18	\$ 2,051
2018/19	\$ 2,287
2019/20	\$ 2,383



Note the table above indicating funds available each year contains the 2010/11 draft Capital expenditure amount. In 2010/11 projects carried forward from the 2009/10 financial year are estimated to be \$566K and therefore the total capital works to be undertaken in 2010/11 is \$1,652K. The graph for 2010/11 above shows the major expenditures will be on buildings at 48% and recreational and open space projects 31%.

Future funds availability will provide for an annual Capital Works program plus any new initiatives emanating from future Council Plans. The level of funds required for the Capital Works program will need to take into account the following.

- Condition based assessments of major infrastructure and building assets
- Review of depreciation rates to accurately reflect the useful lives of those assets
- Future capital projects as identified in the Corporate planning process or other strategic plans
- Council's capacity to raise revenue - federal or state funding predictions
- Council's ability to raise it's borrowings, if required, in light of prudential ratios and debt servicing costs
- the capacity or willingness of the community to provide rates funding towards major projects

In addition, the annual budgeting processes that determine the amount and priorities in relation to capital expenditure, needs to ensure the project evaluation process considers the Council and Business plan priorities and social and environmental impacts.

The level of Capital Expenditure for each of the councils in the Small Rural group in 2008/09 is shown in the following tables, both in total and also as an amount per assessment.

The annual expenditure in any one particular year however, is not necessarily an indication of how well or not a council is maintaining or renewing its assets. Comparisons with other councils must be done in a packaged way in that any one indicator should not be viewed in isolation. See further industry comparisons in Appendix A of this document.

It should also be noted, that in comparing the level of Capital Expenditure with other Councils, the definition of Capital versus maintenance can vary. There is no regulation or standard to ensure consistency in accounting treatment across the industry and thus further analysis may be necessary.

Total Capital Outlays 2008/09	
Queenscliffe	\$ 2,262,000
Mansfield	\$ 2,945,000
Towong	\$ 3,781,000
Alpine	\$ 4,007,000
Benalla	\$ 4,095,000
Ararat	\$ 4,476,000
Gannawarra	\$ 4,640,316
Strathbogie	\$ 4,721,519
Yarriambiack	\$ 4,811,000
Indigo	\$ 4,867,000
Mount Alexander	\$ 5,320,317
West Wimmera	\$ 5,610,588
Hindmarsh	\$ 5,642,215
Hepburn	\$ 5,804,000
Buloke	\$ 6,553,000
Loddon	\$ 7,037,378
Northern Grampians	\$ 7,380,000
Pyrenees	\$ 8,970,000
Golden Plains	\$ 9,051,973
Central Goldfields	\$ 9,553,866
Bass Coast	\$ 14,381,000
Average	\$ 5,995,722
Median	\$ 5,320,317

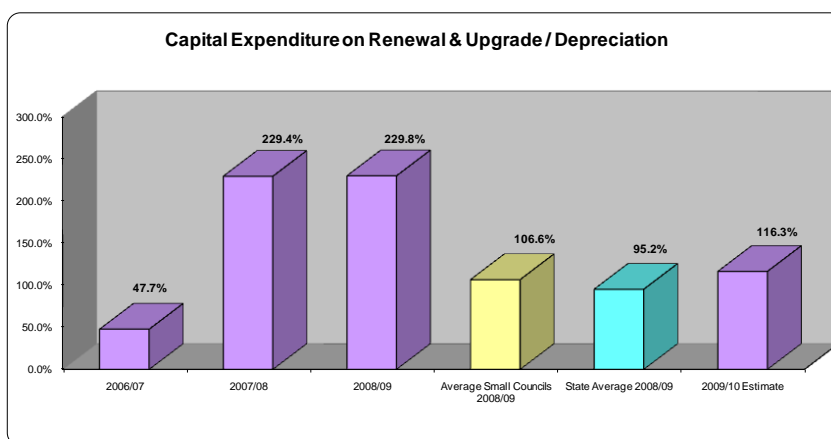
Capital Outlays per assessment 2008/09	
Mansfield	\$ 427
Alpine	\$ 496
Mount Alexander	\$ 506
Bass Coast	\$ 530
Benalla	\$ 537
Hepburn	\$ 573
Indigo	\$ 608
Ararat	\$ 652
Gannawarra	\$ 693
Strathbogie	\$ 695
Yarriambiack	\$ 721
Queenscliffe	\$ 764
Northern Grampians	\$ 806
Towong	\$ 888
Loddon	\$ 937
Golden Plains	\$ 988
Buloke	\$ 1,049
Hindmarsh	\$ 1,130
Central Goldfields	\$ 1,202
West Wimmera	\$ 1,226
Pyrenees	\$ 1,577
Average	\$ 810
Median	\$ 721

Although the left table above shows Queenscliffe's total capital outlays to be the lowest in the group, the table on the right is more relevant as it shows Capital spending per assessment. The Borough is slightly lower than average but above the median.

In relation to council's performance on asset management a number of indicators are used. The most common is the level of expenditure on asset renewal compared to depreciation.

Depreciation is an operating expense that reduces the value of the assets in the Balance Sheet on an annual basis to reflect the deterioration of the asset. The relationship between Capital expenditure and depreciation reflects Councils efforts in replacing assets.

In a break-even operating position where capital expenditure is the same in dollar terms as depreciation, Council is replacing its assets but not funding any new ones.



Significant expenditure in 2007/08 and 2008/09 on the Municipal Offices refurbishment resulted in high percentages for this ratio. The forecast for 2009/10 is also above the target of 100%. Ideally council, over time, should spend at

least the average of the depreciation amount in order to ensure assets, particularly infrastructure assets, are renewed as and when they are due.

Depreciation rates impact on this ratio and also the operating result (the higher the depreciation expense the lower the operating result), so councils need to ensure the rates accurately reflect the remaining useful lives of their assets. Appendix A provides a number of asset and capital ratios as background. The reviews mentioned in preceding pages of this report outlined that depreciation rates have been adjusted in line with condition assessments that have recently been undertaken.

Recommendations:

1. That the recommendations and directions from the Asset review and subsequent Asset Plans be "modelled" in the LTFP and presented to Council for consideration.
2. That wherever possible the annual allocation for maintenance and renewal of council assets be included in council Budgets and in the long-term financial plan.
3. That any surplus from this annual allocation to assets not required in any one year be reserved for the years when expenditure is required (into an Asset Replacement Reserve.)
4. That a review of building asset utilisation be carried out and that the following be considered:
 - the condition of the asset
 - the usage and return on the asset
 - the possible co-location of community groups who utilise the asset
 - the potential usage and return on the asset if investment in the asset occurs
7. That assets that are in poor condition , duplicatory and deemed to be no longer required or well utilised,, be disposed of by sale or demolition, provided the community usage of such assets is able to continue satisfactorily at alternative locations.
8. That the proceeds from asset sales be directed towards other assets, or towards debt redemption but not used as a revenue source to fund operational costs
9. That depreciation rates for all Council asset categories be continually monitored to ensure they reflect the useful lives of those assets.
10. That average annual capital expenditure keep pace (over time) with the annual depreciation expense amount (as a minimum), to ensure council's asset value is not eroded on the Balance Sheet. and that this be considered as **one** of the measures to assess annual capital expenditure requirements over time.

PART 3 – FINANCIAL STRATEGY

Financial Strategy Objectives

This Strategic Financial Plan is formulated around Council's commitment to achieve and maintain:

- A sustainable financial position;
- Responsible stewardship of community assets;
- Prudent limits on debt;
- Responsible debt management arrangements;
- Minimisation of interest rate risk;
- Enduring capacity to fund capital development and replacement programs;
- Equitable and sustainable income sources;
- Optimisation of cost benefit arrangements; and
- Continuous improvement in value / service for money.
- Recognition of social and environmental effects as well as economic impacts

Financial Strategy Commitments

The key Financial Commitments are:

- a) **Financial planning** – Ensure the long term financial sustainability of Council through the development, monitoring and review of the Long Term Financial Plan (LTFP) as part of Council's annual corporate planning and budget process.
- b) **Liquidity** – Maintain sufficient cash reserves to ensure ability to meet commitments as they arise to avoid use of overdrafts to finance operating activities.
- c) **Cash / Rate Budget** – The annual Cash/Rates Budget be framed around a “break even” position.
- d) **Operating Surplus** – The annual Operating Budget (accrual) be framed around a surplus position. (better than break-even position)
- e) **Capital funding** – Ensure that the level of capital expenditure, as a minimum, keeps pace with depreciation. (using averages over a period)
- f) **Loan funds** – Utilise loan funds as a funding of last resort and restrict borrowing to Capital / major projects
- g) **Asset sales** – Apply funds generated through asset sales to Capital Works or debt redemption.
- h) **Prudential ratios** – Ensure management of debt by reference to a range of prudential ratios .
- i) **User fees and charges** – Maintain or improve the contribution of users to the cost of identified services in line with movements in costs and market rates, having regard to the commitments of Council on best value and access and equity issues.
- j) **Continuous improvement** – Ensure improvement of the quality and cost-effectiveness of Council's range of services.

PART 4 – LONG TERM FINANCIAL PLAN

Background

Long-term financial planning enables councils to better plan and understand their long-term financial requirements, which includes consideration of sustainability, service provision levels and the creation, upgrading and renewal of assets.

It is now widely accepted that long-term financial plans (LTFP) need to cover a minimum ten year period. Whilst the existing legislation requires Strategic Resource Plans to be included in the Council Plan and updated in each annual Budget document, councils are not prevented from adopting longer term financial plans and are encouraged to do so.

The Borough's LTFP has been formulated with recognition of the anticipated demographic profile of the Borough in future years, consideration of the condition of assets currently held and the restructuring of the organisation recently undertaken (in terms of the reduction in external contracted services).

Other assumptions contained in the plan that drive future years financial outcomes follow:

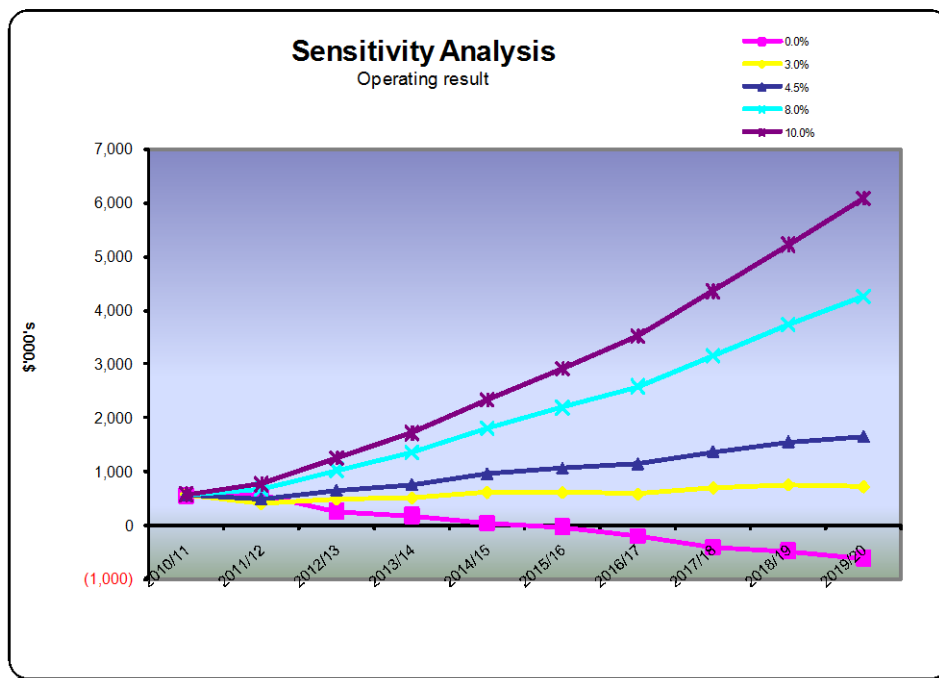
LTFP Assumptions	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
CPI	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Revenue assumptions										
Rates increases	5.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Supplementary rates	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Grants Commission	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Recurrent Grants	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Capital Grants and Contributions	7	0	0	0	0	0	0	0	0	0
Statutory Fees & Fines	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
User Charges	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI
Expenditure assumptions										
Regional Library Contribution	15%	14%	13%	6%	CPI	CPI	CPI	CPI	CPI	CPI
Materials	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI	CPI
Electricity	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Gas	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Water	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Fuel	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

It should be noted that the Borough's longer term sustainability will rely on a number of actions and decisions that need to be made to ensure sufficient operational surpluses are generated. Rate increases alone should not be relied upon, however, the income generated from rates is the major funding source for service delivery and the Capital works program. Rate increases that keep pace with general increases in costs of service provision and asset maintenance and renewal will be necessary in the mix of solutions to ensure financial sustainability.

Sensitivity Analysis

In order to test the sensitivity of rate increases on a number of indicators, a sensitivity analysis is used. The following table and graph attempt to illustrate the projected trend in the operating result at differing rate increase scenarios.

Rate increase Scenarios	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
0.0% Rate increase	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3.0% Rate increase	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
4.5% Rate increase	5.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
8.0% Rate increase	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
10.0% Rate increase	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%



Appendices

Appendix A - LONG TERM FINANCIAL PLAN

- **Income Statement**
- **Balance Sheet**
- **Cash Flow Statement**

INCOME STATEMENT	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's
REVENUES										
<i>Operating revenue</i>										
Rates and charges	5,101	5,308	5,559	5,821	6,095	6,381	6,680	6,992	7,319	7,660
Statutory fees & fines	150	153	156	159	162	165	169	172	176	179
User Charges	1,523	1,617	1,622	1,710	1,715	1,809	1,815	1,914	1,920	2,025
Grants - Operating	723	694	635	683	695	708	722	735	749	763
Grants - Capital	331	0	0	0	0	0	0	0	0	0
Capital Contributions	80	0	0	0	0	0	0	0	0	0
Interest received	46	40	40	40	40	45	45	55	57	60
Other Income	158	162	165	168	171	175	178	181	185	189
TOTAL OPERATING REVENUE	8,111	7,974	8,177	8,582	8,879	9,283	9,608	10,049	10,405	10,876
EXPENSES										
<i>Operating expenses</i>										
Employee benefits	2,753	2,846	2,945	3,047	3,152	3,262	3,375	3,492	3,613	3,738
Materials & Services	3,632	3,601	3,559	3,763	3,777	3,973	4,103	4,226	4,274	4,520
Bad and doubtful debts										
Depreciation	718	723	723	723	723	723	723	723	723	723
Interest expense	127	114	95	84	58	47	43	8	6	3
Other expenses	240	196	201	207	213	219	226	233	240	247
TOTAL OPERATING EXPENSES	7,471	7,480	7,523	7,824	7,924	8,224	8,470	8,682	8,856	9,231
OPERATING RESULT	640	493	655	758	956	1,059	1,139	1,367	1,549	1,645
<i>Non-operating income and expenditure</i>										
Net gain/(loss) on disposal of property, plant and equipment, infrastructure	0	0	0	0	0	0	0	0	0	0
Share of net profits of associates and joint ventures accounted for by the equity method	0	0	0	0	0	0	0	0	0	0
Increase in Unfunded Superannuation Liability	(60)									
Net asset revaluation increment(decrement) on infrastructure										
SURPLUS / (DEFICIT)	580	493	655	758	956	1,059	1,139	1,367	1,549	1,645
minus Capital Income and asset sales	(443)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
minus other abnormal and Library share	60	0	0	0	0	0	0	0	0	0
UNDERLYING SURPLUS / (DEFICIT)	198	461	623	726	924	1,027	1,107	1,335	1,517	1,613

BALANCE SHEET	Forecast 2009/10	Budget 2010/11	Forecast 2011/12	Forecast 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's
ASSETS											
Current Assets											
Cash and cash equivalents	1,279	768	744	644	637	666	693	722	768	807	838
Trade and other receivables	269	282	291	295	310	315	330	335	352	357	375
Inventories	13	13	13	13	13	13	13	13	13	13	13
Other assets	231	231	231	231	231	231	231	231	231	231	231
Total Current Assets	1,792	1,294	1,280	1,183	1,192	1,225	1,267	1,302	1,365	1,408	1,457
Non-Current Assets											
Trade and other receivables	7	7	7	7	7	7	7	7	7	7	7
Investments in associates accounted for using the equity method	246	246	246	246	246	246	246	246	246	246	246
Property, plant and equipment, infrastructure	55,196	56,098	56,376	56,916	57,483	58,235	59,081	59,992	61,288	62,820	64,448
Total Non-Current Assets	55,449	56,351	56,629	57,169	57,736	58,488	59,334	60,245	61,541	63,073	64,701
TOTAL ASSETS	57,241	57,645 404	57,910	58,352	58,928	59,713	60,601	61,546	62,906	64,481	66,158
LIABILITIES											
Current Liabilities											
Trade and other payables	445	426	417	437	458	476	502	519	565	591	621
Trust funds and deposits	65	65	65	65	65	65	65	65	65	65	65
Provisions	364	383	390	404	418	432	447	463	479	496	513
Interest bearing loans and borrowings	236	229	245	217	204	213	228	71	17	17	0
Total Current Liabilities	1,111	1,103	1,117	1,123	1,144	1,186	1,242	1,119	1,127	1,169	1,200
Non-Current Liabilities											
Provisions	24	25	26	27	28	29	30	31	32	33	34
Interest bearing loans and borrowings	1,383	1,214	969	751	547	334	106	35	17	(0)	(0)
Total Non-Current Liabilities	1,407	1,239	995	778	575	363	136	65	49	33	34
TOTAL LIABILITIES	2,518	2,342	2,112	1,901	1,719	1,549	1,378	1,184	1,176	1,202	1,234
NET ASSETS	54,723	55,303	55,798	56,451	57,209	58,164	59,224	60,362	61,730	63,279	64,924
EQUITY											
Accumulated Surplus	29,632	30,814	31,323	32,106	32,890	33,846	34,904	36,044	37,411	38,961	40,606
Asset Revaluation reserve	24,219	24,219	24,219	24,219	24,219	24,219	24,219	24,219	24,219	24,219	24,219
Discretionary Reserves	873	271	256	126	100	100	100	100	100	100	100
TOTAL EQUITY	54,723	55,303	55,798	56,451	57,209	58,164	59,223	60,363	61,730	63,279	64,924

CASH FLOW STATEMENT	Budget 2010/11 \$'000's	Forecast 2011/12 \$'000's	Forecast 2012/13 \$'000's	Forecast 2013/14 \$'000's	Forecast 2014/15 \$'000's	Forecast 2015/16 \$'000's	Forecast 2016/17 \$'000's	Forecast 2017/18 \$'000's	Forecast 2018/19 \$'000's	Forecast 2019/20 \$'000's
Cash flow from operating activities										
Rates	5,097	5,306	5,556	5,818	6,092	6,378	6,677	6,988	7,315	7,656
User charges, statutory fees & fines	1,669	1,757	1,777	1,857	1,876	1,962	1,982	2,073	2,094	2,190
Grants & cash contributions	1,133	694	635	683	695	708	722	735	749	763
Other receipts	204	202	205	208	211	220	223	236	242	249
Payments to suppliers	(3,652)	(3,609)	(3,539)	(3,742)	(3,759)	(3,947)	(4,086)	(4,180)	(4,249)	(4,489)
Payments to employees	(2,739)	(2,832)	(2,930)	(3,032)	(3,137)	(3,246)	(3,358)	(3,475)	(3,595)	(3,720)
Other payments	(240)	(196)	(201)	(207)	(213)	(219)	(226)	(233)	(240)	(247)
Net GST (payments) / refunds										
Net cash provided by operating activities	1,472	1,321	1,502	1,585	1,766	1,856	1,934	2,145	2,316	2,402
Cash flow from investing activities										
Payments for property, plant and equipment, infrastructure	(1,652)	(1,033)	(1,294)	(1,322)	(1,507)	(1,601)	(1,666)	(2,051)	(2,287)	(2,383)
Proceeds from sale of property, plant and equipment, infrastructure	32	32	32	32	32	32	32	32	32	32
Net cash used in investing activities	(1,620)	(1,001)	(1,262)	(1,290)	(1,475)	(1,569)	(1,634)	(2,019)	(2,255)	(2,351)
Cash flow from financing activities										
Trust funds and deposits	0	0	0	0	0	0	0	0	0	0
Finance costs	(127)	(114)	(95)	(84)	(58)	(47)	(43)	(8)	(6)	(3)
Proceeds from interest bearing loans and borrowings		0	0	0	0	0	0	0	0	0
Repayment of interest bearing loans and borrowir	(236)	(229)	(245)	(217)	(204)	(213)	(228)	(71)	(17)	(17)
Net cash provided by / (used in) financing activitie:	(363)	(343)	(341)	(301)	(262)	(260)	(271)	(80)	(23)	(20)
Net increase/(decrease) in cash and cash equivaler	(511)	(23)	(101)	(6)	29	26	30	46	38	31
Cash and cash equivalents at beginning of the year	1,279	768	744	644	637	666	693	722	768	807
Cash and cash equivalents at end of the year	768	744	644	637	666	693	722	768	807	838

Appendix B - FINANCIAL KEY PERFORMANCE INDICATOR (KPI's)

- Industry Comparisons

Summary

The analysis and comments on Queenscliffe's 2008/09 Financial KPI's aim to provide an objective opinion on the trends that have occurred, the relative financial strengths of Council and the opportunities that exist for future improvement.

The comments made in this summary are formed solely on the basis of reviewing Queenscliffe's Annual Report figures with those of like Councils and the State averages.

Drawn from the 2008/09 Annual Reports of all 79 Victorian Councils, financial data has been fed into "key performance indicators" (KPI's). The ratios presented have been based on the definitions shown and have been collected in a consistent manner from the reported data.

Some key points from the analysis are:

- Council's reliance on Rate Revenue has remained steady over the trend period and is the 2nd highest of the twenty-one Small Rural Council grouping. With supplementary rates adding to the rate base, Council's Rate Revenue increased by 8.8% in 2008/09. The significant difference in the % of revenue in other Small Councils related to Government Grants.
- Council rates per capita and rates per assessment highlight that Queenscliffe's rating levels are still at the high end of the Small Rural group of Councils and in the State. Council's rates per assessment are \$377 above the average outcome with reliance on rates compounded by both low Government grants and low fees and charges revenue..
- Council's percentage of unpaid rates ranks it as the best performing Council of the twenty-one in the Small Rural grouping. At 1.3% Council is achieving best practice in the Local Government Industry of below 2%.
- Queenscliffe's recurrent grant income increased in dollar terms by \$382K in 2008/09, however Council was still the lowest in the comparative group in terms of actual grant dollars received for this period (\$1.028M), well below the average of \$6.588M. This represented a 59% increase on the previous year. Given that the Victorian Grants Commission prepaid a quarter of the 2009/10 grants in June 2009, the percentage increase is inflated.
- Council remains well above the average outcome however for Fees as a percentage of Total Revenue received. However Fees and Charges revenue only increased by \$16,000 or 1%. Coupled with the decrease in grants revenue, this is concerning as it places upward pressure on rates to fund similar service provision levels.
- Council's operational spending (excluding depreciation) was \$226 per assessment above the average for the group. With its above average rating revenues Council receives \$17 per assessment above the average total revenue. Its net operational result is \$209 per assessment lower than the average result, equating to a significantly less amount of operating surplus devoted to capital works than other Councils.
- Council has a level of debt that could be considered moderate at June 2009. Whilst there remains some scope for further borrowing should they be required, Council is limited in its capacity to use this source of funding for future capital works. The annual impact of debt servicing and redemption is significant on a small council budget..
- The ratios associated with the level of assets and the depreciation rates used, indicate that Queenscliffe performs at differing levels to the group. The recent Asset review assessed the condition of assets, particularly building assets, and determined that depreciation rates were too low. Future financial planning needs to adjust values accordingly in line with the reviews recommendations.
- Queenscliffe improved its underlying operational result to show a modest surplus in 2008/09 However, the prepayment of the Grants Commission funding inflates the result (as required to be report under current accounting standards.) After adjusting both the 2008/09 result and the

2009/10 Budget for this prepayment, both years would have deficit results. Council needs to address this trend in its long term financial planning.

- Council's capital works performance has been under the average for Small Rural Councils. Capital spending on asset renewal/upgrade compared to annual depreciation charges is however, producing the required ratio outcome mainly on the back of the major refurbishment of the Municipal Office Council needs to continue to address the issue of asset renewal in its long term planning.
- A financial sustainability indicator (FSI) used to measure the four key elements of financial strength has resulted in positive scores for the underlying operating surplus, the moderate level of debt, and the capital expenditure on asset renewal/upgrade in comparison to annual depreciation figures. The low level of accumulated cash surplus recorded a negative score. Overall Queenscliffe's sustainability into the future will depend how these measures trend and should therefore be monitored regularly.

Borough of Queenscliffe Financial Indicators

The development of financial strategies for Council is often a difficult process. What is an acceptable level of debt? Are we achieving a sufficient amount of revenue to provide services to our community? What should our target be in respect of resourcing expenditure on new assets (capital expenditure)? These are just a few of the multitude of questions that Council must face in establishing its financial strategic direction.

Some of the answers may come from prudential guidelines established by industry bodies such as the Department of Planning and Community Development. A great deal however is left for each Council as an individual entity 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 the State of Victoria and then aggregates them into State averages and further into averages for groups of like Councils provides an extremely valuable source of information in establishing financial strategies. It highlights the relative financial strengths of Council and more importantly uncovers the opportunities that Council must grasp for improvement.

The benchmarking information that follows has been derived almost solely from financial data contained in Council's annual reports. This ensures that data is as comparable as possible under the current accounting regulations.

The financial indicators cover all 79 Victorian Councils. In each KPI the information shown is as follows:

- Queenscliffe's position at the 30th June, 2007
- Queenscliffe's position at the 30th June, 2008
- Queenscliffe's position at the 30th June, 2009
- the average for Victorian Councils categorised as "Small Rural" (Queenscliffe's group)
- the State average
- Queenscliffe's 2009/10 budget

Commentary is provided on what the ratio highlights and what purposes the ratio serves in terms of future trends. The performance indicators are presented in graphical form and provide an easy to read insight into Council's financial performance and current financial position.

In terms of the categorisation of Council's, the Local Government Division uses five categories. The number of Councils in each category is shown below.

Council grouping	Councils within Grouping
Inner Melbourne	18
Outer Melbourne	13
Regional Cities	8
Large Shires	19
Small Shires	21
Total	79

As a broad overview, the table below highlights in figure terms the performance indicators that have been graphed and analysed.

Ratio	Queenscliffe 2006/07	Queenscliffe 2007/08	Queenscliffe 2008/09	Average Small Councils 2008/09	State Average 2008/09	Queenscliffe 2009/10 Estimate
Rate Revenue / Adj Total Revenue	63.77%	62.28%	62.10%	47.99%	55.49%	64.94%
Rates per Capita	\$1,227	\$1,319	\$1,389	\$838	\$692	\$1,450
Rates per Assessment	\$1,343	\$1,419	\$1,527	\$1,150	\$1,243	\$1,596
Rates Outstanding / Total Rates Levied	1.29%	1.56%	1.26%	8.98%	5.39%	1.25%
Rates Outstanding per Capita	\$16	\$21	\$18	\$72	\$38	\$18
Recurrent/Operating Grants / Adj Total Revenue	9.12%	9.68%	14.11%	36.76%	25.70%	9.31%
Fees & Charges / Total Revenue	24.22%	23.71%	21.94%	10.41%	14.75%	22.33%
Adj Total Revenue per Assessment	\$2,106	\$2,279	\$2,459	\$2,442	\$2,294	\$2,457
Adj Total Expenses per Assessment	\$2,069	\$2,331	\$2,410	\$2,571	\$2,340	\$2,443
Adj Total Expenses (ex Dep) per Assessment	\$1,863	\$2,127	\$2,197	\$1,971	\$1,886	\$2,210
Net adj. operational surplus per assessment	\$243	\$152	\$262	\$471	\$409	\$247
Total Expenses per Capita	\$1,890	\$2,166	\$2,192	\$1,886	\$1,344	\$2,220
Employee costs / Adj Total Expenses	28.7%	26.5%	29.5%	36.7%	37.5%	35.7%
Debt Servicing Costs / Adj Total Revenue	0.96%	1.54%	1.69%	0.79%	0.87%	70.86%
Debt Servicing & Redemption / Rate Revenue	4.61%	7.65%	7.58%	5.29%	5.05%	113.44%
Total Debt / Rate Revenue	42.95%	49.23%	40.37%	22.21%	23.80%	33.86%
Total Liabilities / Total Realisable Assets	4.48%	9.06%	5.28%	9.02%	9.24%	7.25%
Debt Commitment / Own Source Revenue	3.26%	5.32%	5.50%	4.21%	3.93%	83.34%
Total Debt / Own Source Revenue	30.42%	34.21%	29.25%	17.71%	18.53%	24.88%
Proceeds from New Borrowings / Cash Inflows	12.80%	7.27%	0.00%	0.80%	1.31%	0.00%
Total Debt per Capita	\$527	\$650	\$561	\$183	\$166	\$491
Debt Commitment per Capita	\$57	\$101	\$105	\$43	\$36	\$1,644
Debt Commitment per Assessment	\$62	\$109	\$116	\$62	\$64	\$1,810
Total Liabilities per Capita	\$762	\$977	\$902	\$558	\$465	\$763
Total Liabilities per Assessment	\$834	\$1,052	\$991	\$776	\$837	\$840
Adj Operating Surplus (Deficit) / Total Assets	0.23%	-0.35%	0.26%	-0.44%	-0.17%	0.07%
Total Assets per Assessment	\$16,317	\$14,897	\$19,279	\$24,396	\$23,241	\$19,093
Total Assets per Capita	\$14,908	\$13,847	\$17,538	\$17,955	\$13,239	\$17,346
Current Assets / Current Liabilities	377.01%	280.38%	168.81%	247.92%	233.39%	161.34%
Total Depreciation / Total Assets	1.26%	1.37%	1.10%	2.52%	2.02%	1.22%
Depreciation on Infrastructure / Infrastructure Assets	3.38%	3.42%	3.46%	2.55%	2.57%	1.47%
Capex / Adj Tot Exps (incl Capex, excl Dep'n)	17.58%	19.17%	25.79%	28.68%	25.35%	16.11%
Total Capital expenditure per Assessment	\$397	\$504	\$764	\$810	\$652	\$424
Surplus operational funds spent on Capex (per assessment)	\$67	\$266	\$391	-\$61	-\$12	\$30
Capital Expenditure on Renewal & Upgrade / Depreciation	47.72%	229.36%	229.84%	106.61%	95.20%	116.34%
Capital Exp / Rate Revenue	29.60%	35.54%	50.01%	74.43%	54.34%	26.60%
Liquidity Alert	647,000	1,068,000	479,000	4,056,989	12,461,823	179,457
Accumulated Cash Surplus (Balance Sheet calc)	760,000	669,000	69,000	3,257,160	7,956,013	(7,795)
Accum Cash Surplus (net of reserves) as % of Adj Total Revenue	45.1%	35.3%	14.5%	25.8%	24.5%	12.0%

Note: Throughout this document, all rankings, graphs and averages exclude the City of Melbourne.

In terms of reading the KPIs the following definitions should be understood:

Accumulated Cash Surplus	Balance Sheet calculation of accumulated cash being Current Assets (excl Land for resale) minus Current and Non-Current Liabilities (excluding Debt and Landfill Remediation Provision) minus Reserves.
Adjusted Operating Surplus / (Deficit)	Operating surplus/deficit less revenue from Capital (Non-recurrent) grants, Developer contributions (ie. assets contributed), Asset Revals, Sale of Assets plus expenditure from Asset Revals,WDV of assets sold, Landfill Remediation Provision increases (through Income Statement) and unfunded superannuation expense.
Adjusted Total Operating Expenses	Total Operating expenses as per the "Income Statement"- net of asset revals, unfunded superannuation expense and WDV of asset sold. (Also excludes any Income Statement amounts for Landfill Remediation Provision increases)
Adjusted Total Revenue	Total Revenue from "Income Statement" - net of asset sales, asset contributions in kind, capital grant funding & contributions and revaluation adjustments.
Asset renewal & upgrade	per Capital Works Statement / note.
Assets & Contributions by Developers	Total value of assets & contributions received from developers as per the "Income Statement" or as disclosed in note in some Council's statements. (include contributions for Open Space).
Capital Grants & Contributions(non-recurrent)	Capital or non-recurrent grants and contributions as disclosed in notes.
Cash & Investments on hand	Cash & investments per "Balance Sheet".
Change in Equity (income)	As per the "Income Statement" or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (income) - include Library profit here.
Change in Equity (expense)	As per the "Income Statement" or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (expense) - include Library loss here.
Current Assets	Total current assets from "Balance Sheet".
Current Liabilities	Total current liabilities from "Balance Sheet".
Debt Redemption	Debt repayments including DBS superannuation liability repayment.
Debt Servicing Costs (Interest)	Total borrowing costs or interest expense as per the "Income Statement" or as disclosed in note in some Council's statements.
Employee Costs	Employee costs in the "Income Statement"
Fees & Charges Revenue	Total Fees & Charges revenue as per the "Income Statement" or as disclosed in note in some Council's statements.(includes fines and rent.)
Interest Earnings	Total interest received as per the "Income Statement" or as disclosed in note in some Council's statements. (includes interest on rates).
Land Held for Resale (current)	per Balance Sheet or disclosed in note.
Landfill Remediation Provision (expense)	Any amounts set aside in a provision for future Landfill remediation (increase in provision per Income Statement)
Liquidity Alert	Cash assets less LSL provision and reserves (assumes cash backing required for LSL and reserves). Calculated figure shows funds available after cash backing LSL and reserves.
Long Service Leave Liability (Current + Non Current)	Long Service Leave liability (Current plus Non-current) per note.
Loss from sale of non-current assets	Net loss from asset sales as per the "Income Statement" or as disclosed in note in some Council's statements.
No of Rateable Properties	Number of rateable properties per Grants commission advice.
Non-Current Liabilities	Total non-current liabilities from "Balance Sheet"
Operating Surplus (Deficit)	Operating result from Income Statement.
Population	Population per ABS.
Proceeds from New Borrowings	Amount of any new borrowings/loans per the "Cash flow statement".
Profit from sale of non-current assets	Net profit from asset sales as per the "Income Statement" or as disclosed in note in some Council's statements.
Rate Revenue	Total Rate revenue as per the "Income Statement" or as disclosed in note in some Council's statements.
Rates Outstanding at End of Year	Rate debtor amount as disclosed in "Receivables" note.
Recurrent Grant Income & Re-imbursments	Recurrent grants revenue as per the "Income Statement" or as disclosed in note in some Council's statements. (includes VicRds sometimes shown as "reimbursments" by some Councils.)
Reserve Funds (excluding Asset Reval)	per Balance Sheet or disclosed in note.
Superannuation debt repayment	Any repayments for unfunded superannuation liability (DBS) per notes or in "Cash flow statement"
Superannuation Liability	Any remaining liability for unfunded superannuation (DBS) as disclosed in notes.
Total Assets	Total assets from "Balance Sheet".
Total Capital Expenditure	Capital expenditure per the "Capital Works" note or Standard Capital Works Statement.
Total Cash Inflows from Operations, Finance & Investment Act	Total inflows per the "Cash flow statement".
Total Cash Outflows from Operations, Finance & Investment Act	Total outflows per the "Cash flow statement".
Total Debt	Total interest bearing liabilities (current and non-current) from "Balance Sheet" plus outstanding Defined Benefits Superannuation liability, plus overdrafts.
Total Depreciation	Total depreciation expense as per the "Income Statement" or as disclosed in note in some Council's statements.
Total Depreciation on Infrastructure Assets	Total Depreciation on Infrastructure Assets as disclosed in "Depreciation expense" note.
Total Infrastructure Assets	Total infrastructure assets from "Balance Sheet" or as disclosed in note. (written down value.) Infrastructure includes roads, bridges, drains, road structures, other structures, playground equip., parking meters 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 "Income Statement" plus Loss on sale of assets where net method used, plus loss on associates.
Total Revenue	Total Revenue from "Income Statement" plus gains from asset sales (net method) and net profit from Associates.

1. RATING INDICATORS

1.1 Rate Revenue / Total Revenue

Explanation:

This ratio shows revenue raised by way of general rates, expressed as a percentage of total revenue as adjusted by removal of abnormal items

Warning Trend:

Rate income is a secure and predictable source of revenue. A low ratio can warn of undue reliance on forms of revenue, which may or may not be sustainable – such as Government grants. A high ratio may, however, indicate that Council has not pursued alternative revenue forms effectively.

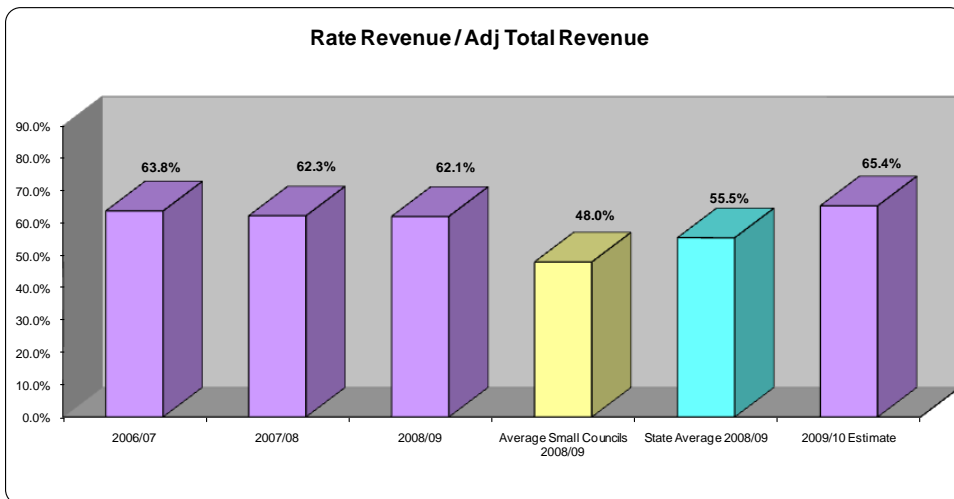
Factors influencing the Indicator:

A strong Revenue base from sources such as Grants (recurrent) and Fees and Charges will lower the outcome.

Council's Ratio at 30th June 2009: 62.1%

Council's Group Ranking: 2nd highest of the 21 Councils

Graphical Presentation:



Commentary on Ratio:

The graph shows that Council's reliance on Rate Revenue has remained steady over the trend period and is the 2nd highest of the twenty-one Small Rural Council grouping.

The reasonably high percentage in this indicator shows a reliance on rate revenue but also shows Council has a solid secure income source which it alone controls. Other Small Rural Councils receive considerably more Government Grants and therefore have less reliance on rates.

1.2 Rates per capita

Explanation:

This ratio highlights the average rates per capita calculated by dividing total Rate Revenue by population.

Warning Trend:

Low rates per capita may indicate Council is rating at below its capacity compared to other like Councils.

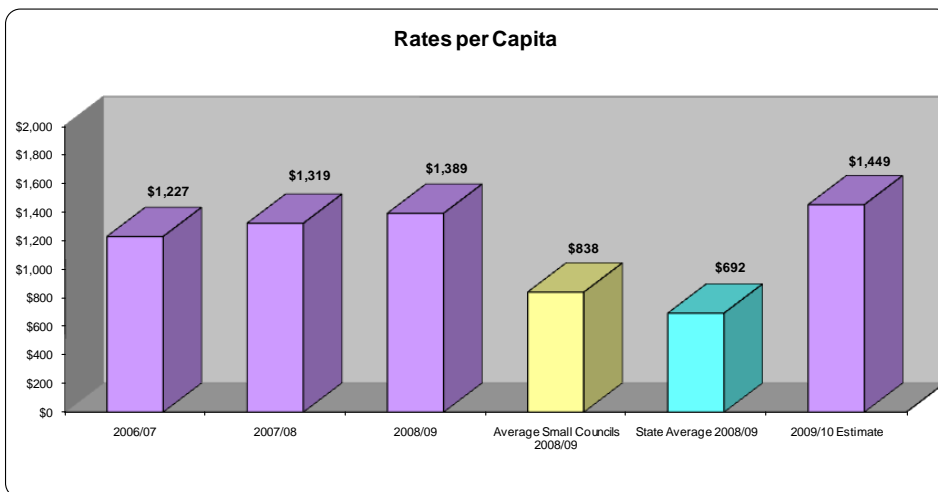
Factors influencing the Indicator:

Councils who have a large industry within their boundaries may therefore have large rates per capita. The ratio does not, however, indicate what the average ratepayer pays – only the funds Council derives compared to the number of people it has to service. The ratio can also be affected by population density relative to the number of rateable assessments.

Council's Result at 30th June 2009: \$1,389

Council's Group Ranking: Highest of the 21 Councils

Graphical Presentation:



Commentary on Ratio:

Council is the highest rating on a per capita basis, within the Small Rural grouping.

Rates per capita is frequently distorted by the varying degrees of commercial / industrial properties within a municipality. Population densities also impact the ratio. Queenscliffe records 1.1 persons per assessment which is below the group average of 1.42. This variance disadvantages Council in using rates per capita (i.e. it makes the outcome higher than what it would be if Queenscliffe had average population density)

1.3 Rates per assessment

Explanation:

This ratio highlights the average rates per assessment calculated by dividing Rate Revenue by the number of rateable assessments.

Warning Trend:

Low rates per assessment may indicate Council is rating at below its capacity compared to other like Councils.

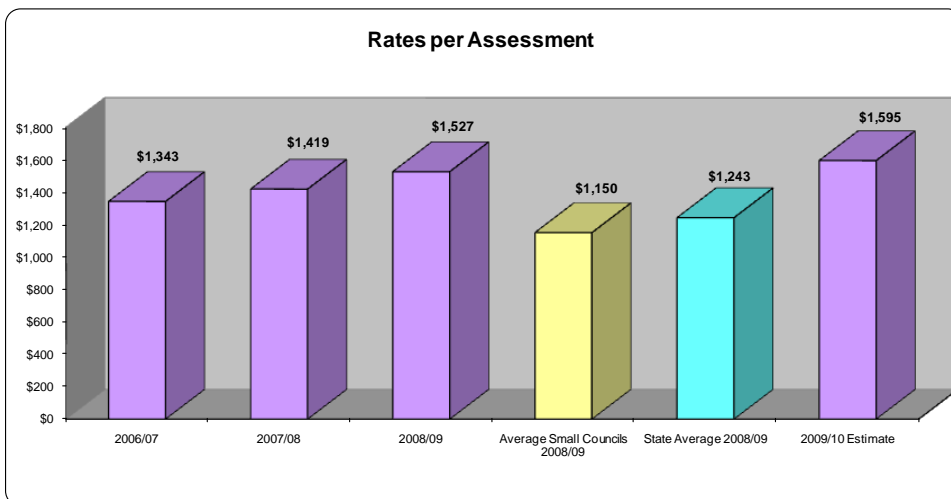
Factors influencing the Indicator:

Councils who have a large industry within their boundaries may find the average rate per assessment more appropriate than Rates per Capita as a meaningful measure. Essentially however all Councils need to derive a level of funds per assessment to operate and large industries can operate to lower the residential rate and still produce a comparable indicator for benchmark purposes.

Council's Result at 30th June 2009: \$ 1,527

Council's Group Ranking: Highest of the 21 Councils

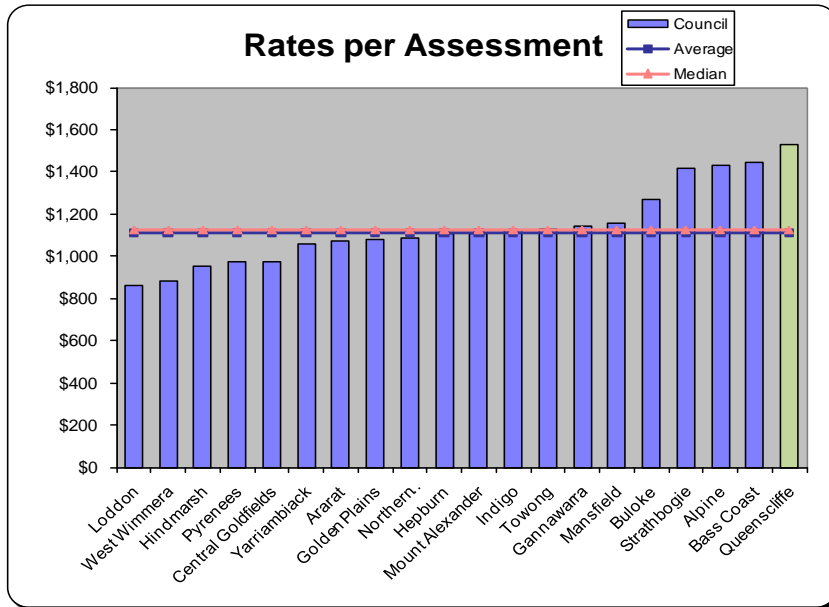
Graphical Presentation:



Commentary on Ratio:

Rates per assessment is the more accurate way to gauge rating levels in comparison to the other Small Councils and in this measure, Queenscliffe remains the highest rating Council, sitting \$377 above the average.

Continued growth in this indicator is expected with the lack of growth in rateable properties and the continuing increase in the cost of operations and capital renewal.



The above chart highlights rates per assessment and is not necessarily reflective of the average residential rate given the impact of industrial ratepayers.

Benchmarking of **residential** rates may be beneficial for Council to undertake but is not possible to ascertain with accuracy from Annual Report information as the breakdown of rate revenue by rating type is not a mandatory reporting requirement and is not shown universally by all Councils. It must also be noted about the impact that different rating structures will have on the comparison, for example the effect of using a municipal charge or residential waste charge distorting the revenue required from residential rates.

1.4 Rates Outstanding / Total Rates

Explanation:

This ratio is the percentage of levied rates that remain unpaid at the end of the year.

Warning Trend:

An increasing trend may demonstrate inefficiency with rate collection that will ultimately place pressure on Council's liquidity.

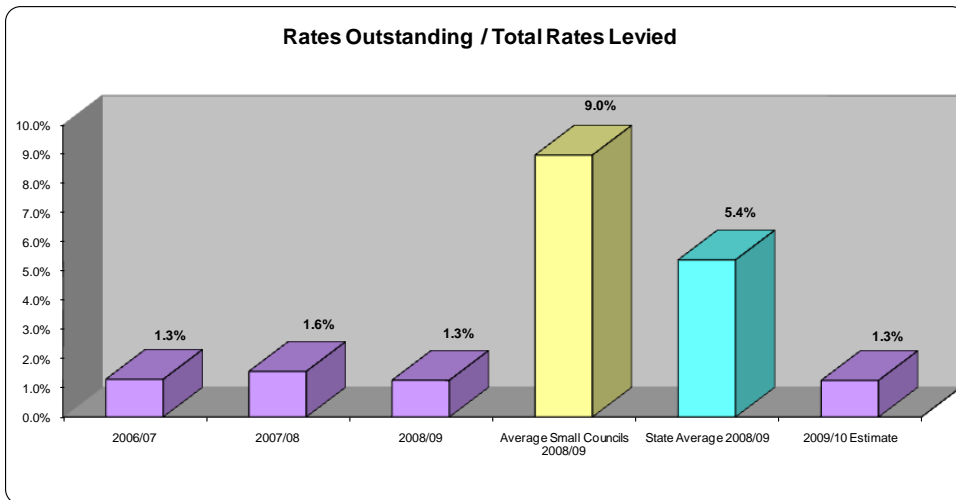
Factors influencing the Indicator:

The indicator is a good measure of the efficiency of the collection process.

Council's Ratio at 30th June 2009: 1.26%

Council's Group Ranking: Lowest of the 21 Councils

Graphical Presentation:



Commentary on Ratio:

Council's performance in this area is within the best practice range of below 2%. The percentage outcome of 1.3% ranks Council as the lowest in a comparative group that has high amounts of outstanding rates, with an average of 9.0%..

2.0 OTHER REVENUE INDICATORS

2.1 Recurrent Grant Revenue / Total Underlying Revenue

Explanation

This ratio compares the recurrent amount received from Recurrent Government Grants to the Adjusted Total Revenue figure.

Warning Trend

A decreasing trend may indicate a reduced level of financial commitment from other tiers of government, increasing pressure on Local Councils.

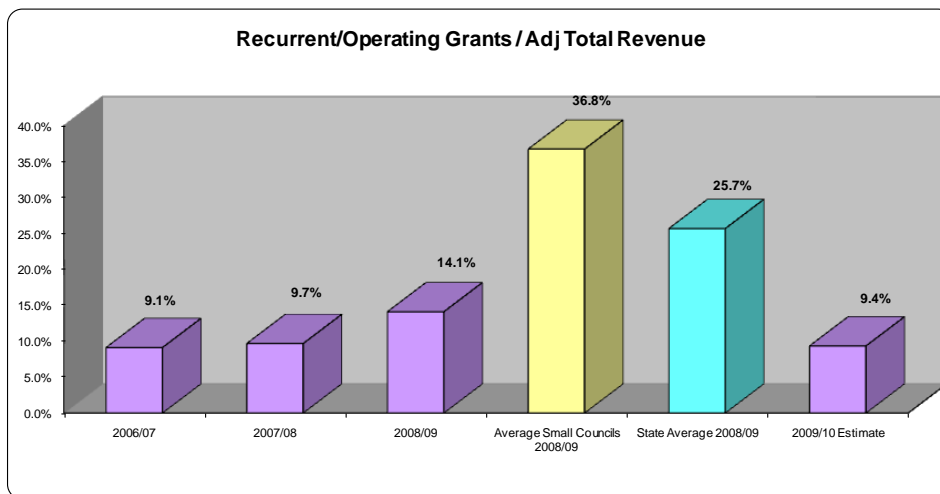
Factors influencing the indicator:

Surges in either Rate revenue or Fees and Charges can impact on this outcome. Councils may further receive large grants to deliver one-off operational expenditure and these are frequently recorded as Recurrent Grant Revenue as they are not capital in nature

Council's Ratio at 30th June 2009: 14.1%

Council's Group Ranking: Lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Queenscliffe's recurrent grant income increased in dollar terms by \$382K in 2008/09. Council was the lowest in the comparative group in terms of actual grant dollars received for this period (\$1.028M), well below the average of \$6.588M.

The increase in 2008/09 represents a 59% increase on the previous year but it should be noted that the Victorian Grants Commission prepaid a quarter of the 2009/10 grants in June 2009, which is included in the 2008/09 grants total shown above. One-off project grants are included above and will be offset by matching expenditure. Capital grants are excluded from the above graph.

2.2 Fees & Charges Revenue / Total Revenue

Explanation

This ratio compares the amount received from Fees and Charges to the Total Revenue figure.

Warning Trend

A decreasing trend may put pressure on Councils ability to continue to provide both Operational services and capital works. It may require Council to source income from rates or loan borrowings.

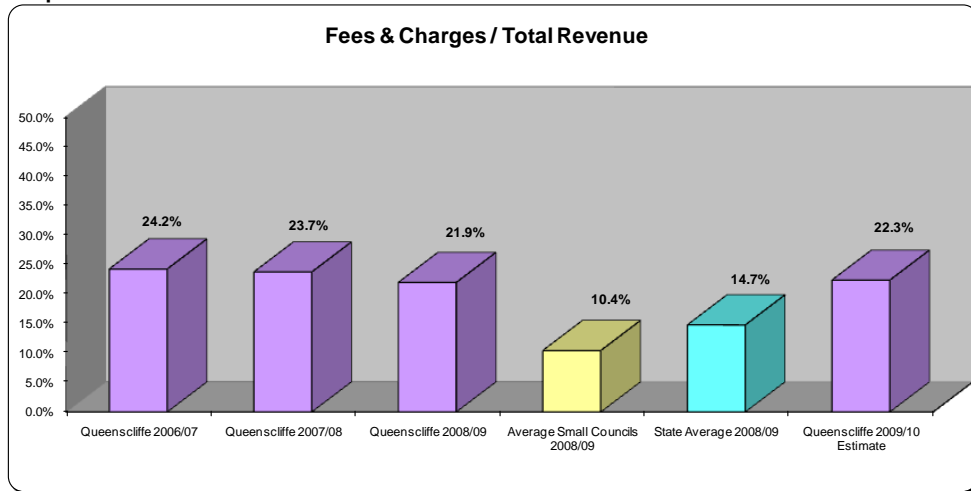
Factors influencing the indicator:

Spikes in grant income may boost Total Revenue from year to year distorting the ratio.

Council's Ratio at 30th June 2009: 21.85%

Council's Group Ranking: 2nd highest of the 21 Councils

Graphical Presentation

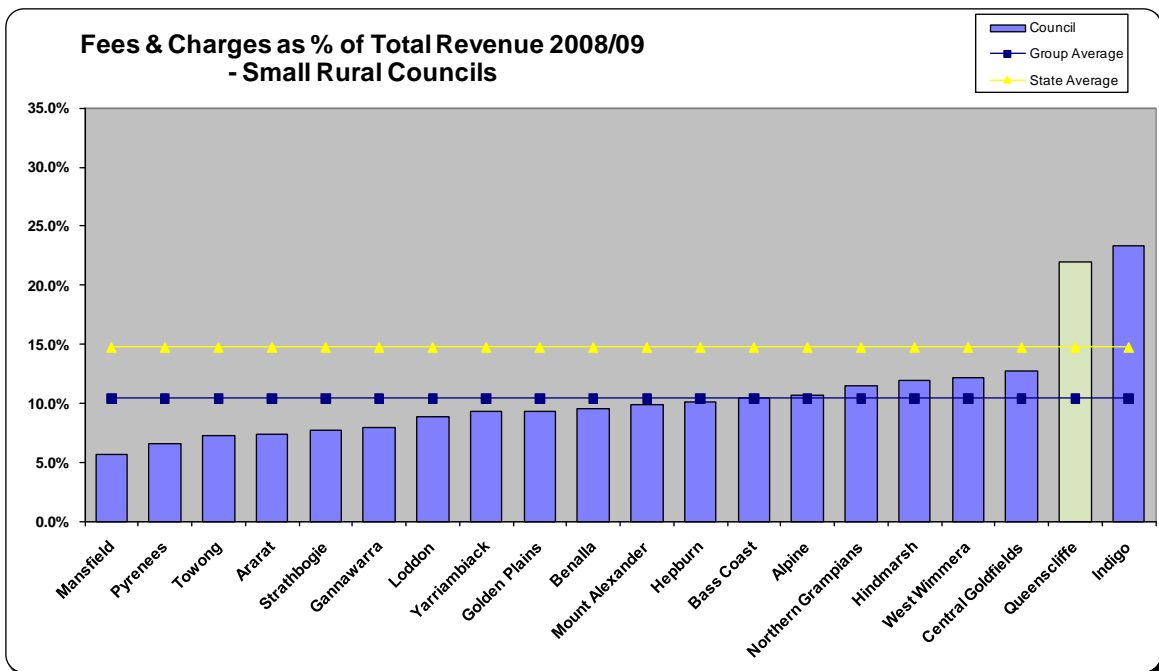
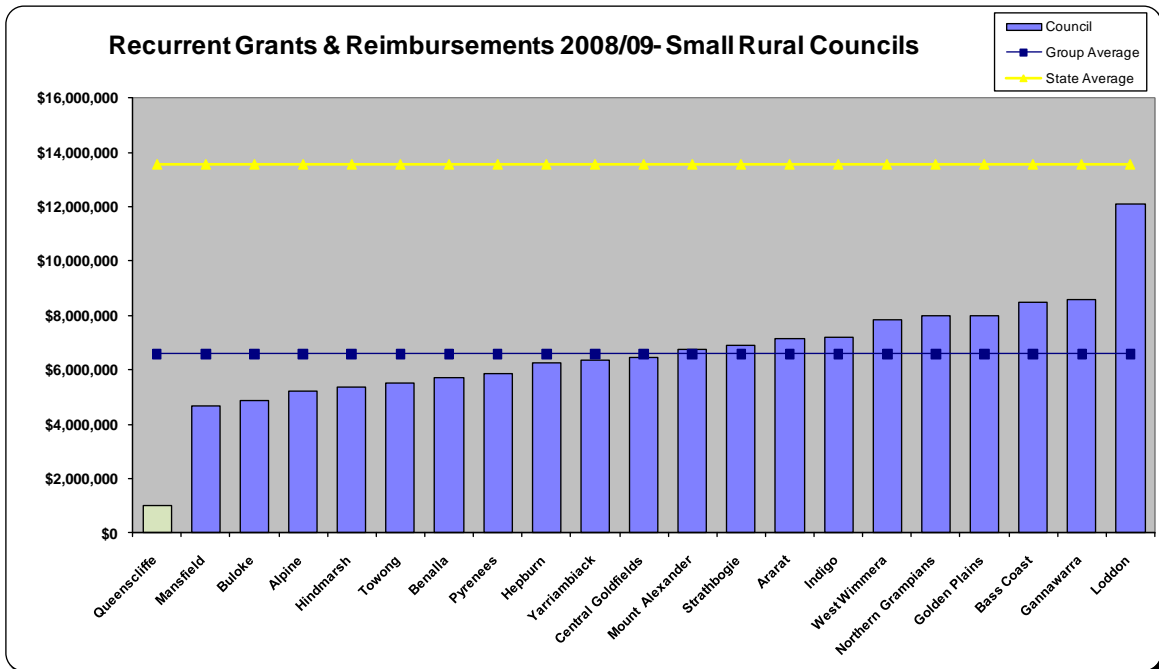


Commentary on Ratio:

Council remains well above the average outcome however for Fees as a percentage of Total Revenue received.

However Fees and Charges revenue only increased by \$16,000 or 1%. The low result for grants revenue means that there is heavy reliance on councils "own source revenue", placing upward pressure on rates to fund similar service provision levels.

The two graphs below highlight Queenscliffe's comparative performance in attracting Grant and Fees and Charges Revenue.



3. EXPENSE INDICATORS

3.1 Total Expenses (Net of Depreciation) / Assessments

Explanation

This ratio shows the average operating expense (net of depreciation) outlay for each rateable property. It should be noted however that this is purely financially based and doesn't account for relative service levels.

Warning Trend

It is expected that operating expenses will grow annually in line with the escalating costs of service provision. An increasing cost per assessment, beyond this normal escalation, may indicate inefficiencies in service delivery or reflect decisions on service levels. Falling trends may conversely indicate efficiencies or falling service levels

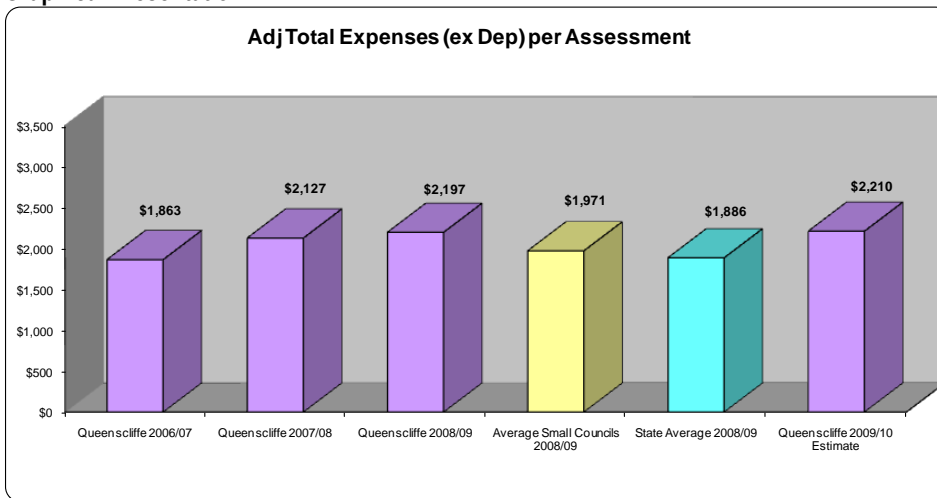
Factors influencing the indicator:

The policy Councils adopt on exactly what expenditure is expensed (operating) and what is treated as capital expenditure affects this indicator. Other factors are large grant programs that affect both the expenditure levels and revenue amounts can also affect the amount of Total Operating Expenses.

Council's Result at 30th June 2009: **\$2,197**

Council's Group Ranking: **5th highest of the 21 Councils**

Graphical Presentation



Commentary on Ratio:

This ratio highlights that Queenscliffe's operational expenses are \$226 per assessment higher than the group average and ranks Council as the fifth highest of the 21 Councils. The outcome for revenue per assessment is also higher than average, (refer 3.2) but it is the net operational result (revenue less expenses) in section 3.3 that is the measure of Council's ability to provide surplus operational funding for capital expenditure.

3.2 Total Adjusted Revenue / Assessments

Explanation

This ratio shows the average revenue that Council receives for each rateable property.

Warning Trend

The warning trend for this indicator must be read in conjunction with the trends in operational spending. Council must be mindful to continue to provide operational services that meet the needs of their communities whilst keeping an appropriate balance of funds available to complete capital works. A sharply rising trend in revenue (as compared to expenses) will indicate that Council is increasing its operational surplus and therefore ability to complete capital. Conversely a revenue trend that is growing less than expenses will indicate a declining ability to dedicate funds to capital.

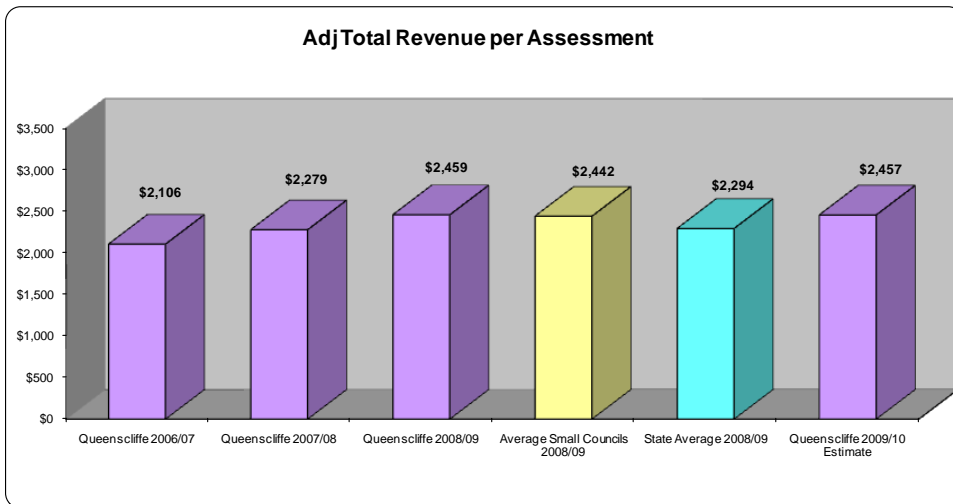
Factors influencing the indicator:

Large operational grant programs will influence this result on a year to year basis. (NB capital grants are excluded from this ratio) Increases in rate revenue will strengthen the result.

Council's Result at 30th June 2009: **\$2,459**

Council's Group Ranking: **11th lowest of the 21 Councils**

Graphical Presentation



Commentary on Ratio:

Following on from the previous ratio, Queenscliffe records the eleventh lowest revenue per assessment and is \$17 more than the group average. The group average is particularly attributable to the high government grants, whereas in Queenscliffe it is the high rates component in total revenue.

3.3 Net operational surplus per assessment

Explanation

This ratio shows the net operational position per assessment, combining the outcomes of the ratio's presented in 3.1 and 3.2. The net operational position is an indicator that highlights to Council whether it has the balance correct between operational service provision and the retention of a sufficient operational surplus to complete capital spending.

Warning Trend

An increasing net outcome will highlight that Council's ability to complete capital works is strengthening but may also indicate that it has altered its commitment to providing operational services to the community. A decreasing trend will highlight that the cost of providing operational services is consuming a greater proportion of the surplus funds available to fund capital works.

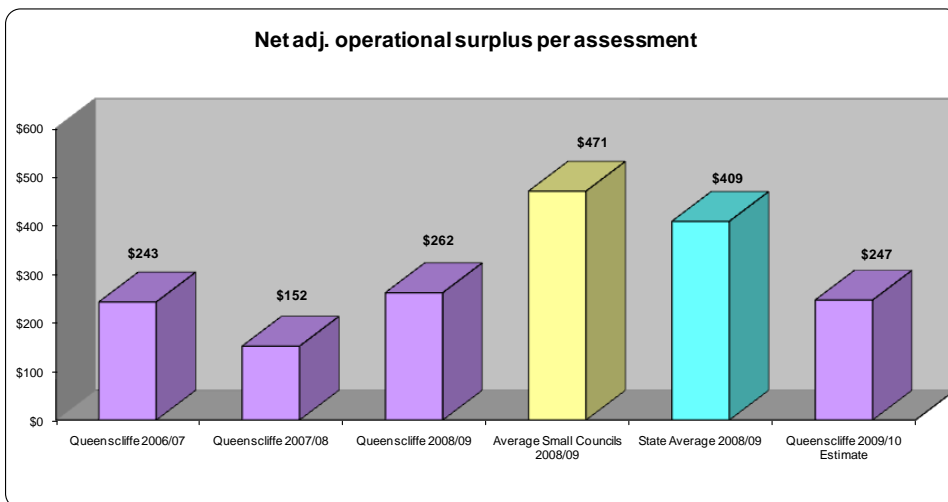
Factors influencing the indicator:

Councils with large Operational Revenue's (e.g. parking) that do not necessarily have matching expenditures will typically be strong in this ratio. Council's philosophy towards service provision will have a large bearing on the ratio outcome. Those Councils committed to providing strong operational services to the community, as compared to physical infrastructure, will typically have a lower result.

Council's Result at 30th June 2009: \$262

Council's Group Ranking: 5th lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

The above outcome highlights that on a net basis, Queenscliffe records a \$209 per assessment lower net operational surplus than the average outcome for Small Rural Councils. Whilst Queenscliffe's result does not compare favourably with the Small Rural Council grouping it should be noted that the \$262 surplus is more than several Councils in the Large Rural Grouping as well as some of the Outer Metro councils in Melbourne. This surplus in net operational costs enable funds to be devoted to the capital expenditure program.

3.4 Employee costs / Total Expenses

Explanation

This ratio shows the total of employee costs expressed as a percentage of Council's Total Operating Expenses

Warning Trend

An increasing cost as a percentage of Total Expenditure may indicate that employee costs are increasing at a rate greater than Council's total spending and therefore limiting Council's flexibility to expend in areas other than employee costs. A reducing percentage may indicate that service levels are not being maintained or that service delivery is being outsourced.

Factors influencing the indicator:

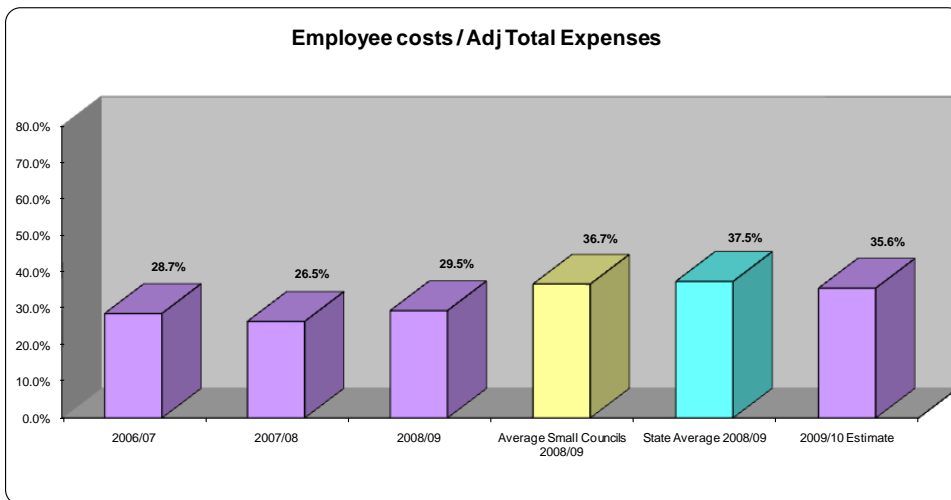
This indicator needs to be read with some caution as a number of factors will make direct comparisons between Councils problematic. The degree to which a Council outsources significant service delivery components will have a major impact on this ratio as will the extent of activity in services that Council delivers that may have matching revenue.

Another influencing factor will be the degree to which Council is able to deploy staffing costs into the delivery of capital works - employee costs shown in this ratio are only those that are applied to operational expenditure as per the Statement of Financial Performance. Finally, the range of services offered by Council may impact the ratio with social based services being principally labour based.

Council's Result at 30th June 2009: 29.46%

Council's Group Ranking: Lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Council's performance in this ratio is below the average for expenditure on employee costs. This ratio does however need to be read with considerable caution as the outcome is frequently contributed to by the mix and type of services provided by Council in comparison to others and also the degree of outsourced labour in other municipalities. Across the State the percentage ranges between 20% and 49% in this ratio.

4. DEBT INDICATORS

4.1 Debt Servicing Costs / Total Revenue

Explanation

This ratio shows the amount of loan interest paid compared to Total Revenue.

Warning Trend

Increasing debt-servicing costs indicate an increased financial burden on the current revenue base.

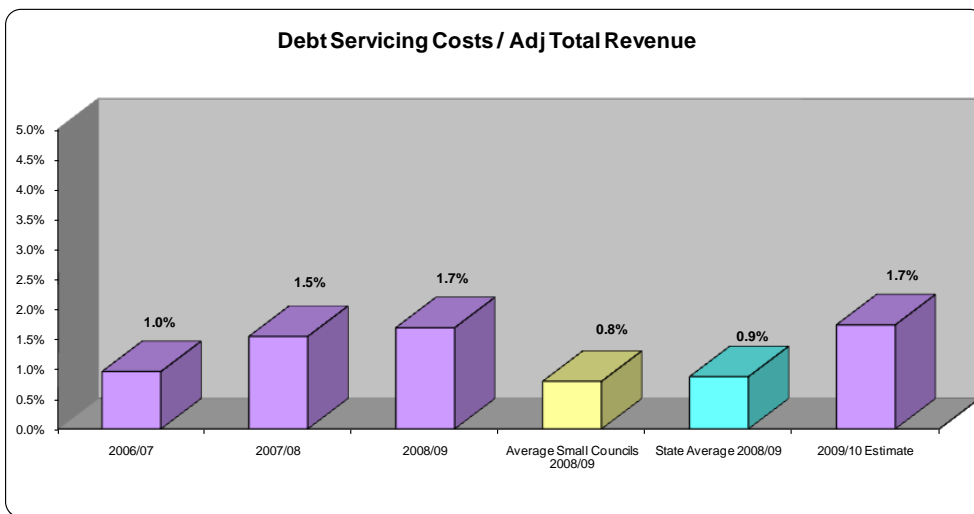
Factors influencing the indicator:

Large capital works programs that are funded by loan programs will obviously impact on this ratio. Such programs may cause spikes in the ratio but must be managed to ensure loan ratios return to acceptable levels. Variations in Total Revenue both upwards and downwards obviously impact on this ratio. If grant income were to fall for example, this ratio would increase.

Council's Ratio at 30th June 2009: 1.69 %

Council's Group Ranking: 3rd highest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

The average for the Small Rural group is low with 3 councils being debt free at June 2009.

Council's ratio is well below the prudential guideline (ceiling level) of 5% established by Local Government Victoria (LGV).

4.2 Debt Servicing and Redemption / Rate Revenue

Explanation

This ratio, commonly called the Debt Commitment Ratio, compares funds paid on loan interest and loan principal to Rate Revenue.

Warning Trend

Increasing debt servicing and redemption costs places an increased financial burden on the current revenue base.

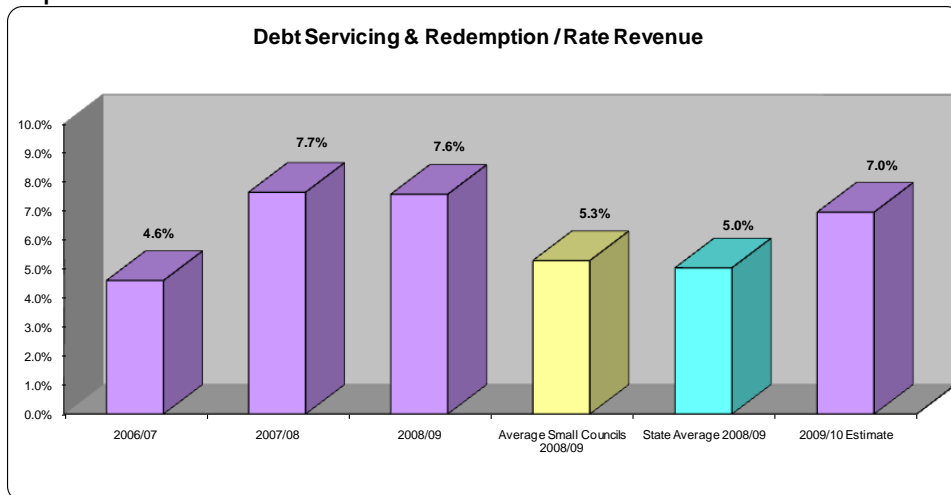
Factors influencing the indicator:

Aggressive debt repayment strategies obviously increase this ratio. Large increases in the rate revenue either from Council's rating strategy or from growth in the rate base, will also affect the ratio.

Council's Ratio at 30th June 2009: 7.58%

Council's Group Ranking: 6th highest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

In contrast to other debt ratio's, Debt Commitment (Servicing and Redemption) as % of Rate Revenue is used to some degree as a measure of how proactive a Council is at reducing debt where this is the desired debt strategy. Queenscliffe's debt costs in terms of interest and principal repayments represents 7.65% of rate revenue which is \$343k in 2008/09.

4.3 Total Indebtedness / Total Rate Revenue

Explanation

This ratio measures the level of indebtedness compared to the Rate base that supports it.

Warning Trend

An increasing trend may indicate an over-reliance on loan funding for capital works. A decreasing trend may indicate redemption of loans.

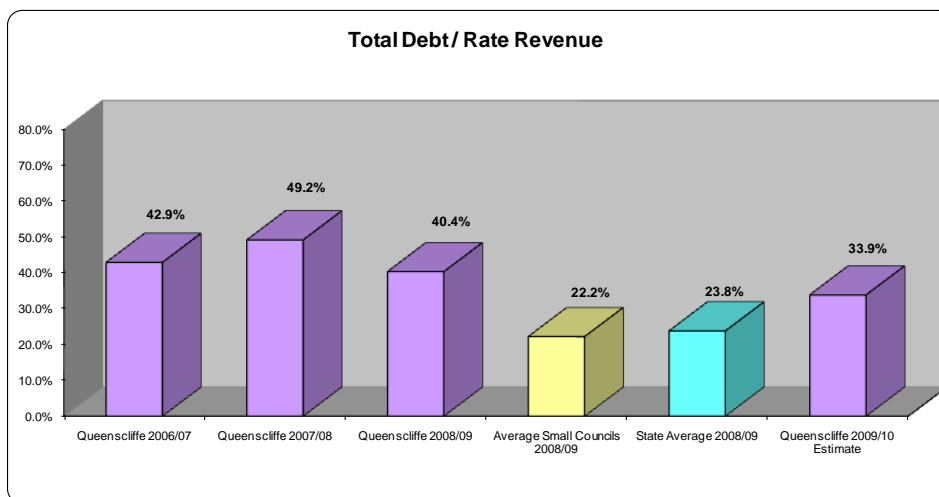
Factors influencing the indicator:

Increases in Rate Revenue either through percentage increases to ratepayers or through growth in the municipality will affect this ratio.

Council's Ratio at 30th June 2009: 40.37%

Council's Group Ranking: 3rd highest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

This ratio is perhaps the most used debt indicator and is used by LGV in order to set prudential guidelines for Councils to follow. The prudential guideline set by LGV is for ratios to be below 80% with Councils whose ratios exceed 60% being required to evidence long term planning to reduce debt before having any future borrowings approved.

As highlighted above, Queenscliffe has moderate debt and therefore some scope to access further loan funding should this be required.

4.4 Proceeds from New Borrowings / Cash Inflows

Explanation

This ratio measures the proceeds from new borrowings as a percentage of all cash inflows as recorded in the Statement of Cash Flows.

Warning Trend

An increasing trend would indicate higher reliance on borrowings which may lead to long term problems in servicing such debt and impacts on the ability to provide other services.

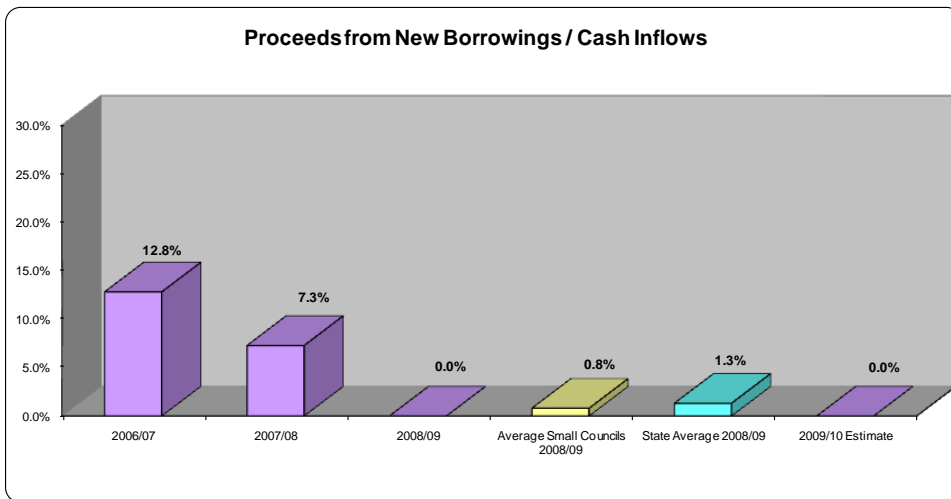
Factors influencing the indicator:

If many Council's had Nil borrowings during the periods concerned this lowers the average borrowings.

Council's Ratio at 30th June 2009: 0%

Council's Group Ranking: Lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Council had NIL borrowings in 2008/09 and is forecasting NIL in 2009/10. Borrowings in previous years were related to the Municipal Offices refurbishment.

5. ASSET INDICATORS

5.1 Operating Surplus (Deficit) / Total Assets

Explanation:

This ratio indicates the proportion of Operating surplus/deficit that contributes to or erodes the total asset base.

Warning Trend:

An inability to record a positive ratio may indicate long-term sustainability issues for Council to address. A negative ratio indicates the asset base is being eroded.

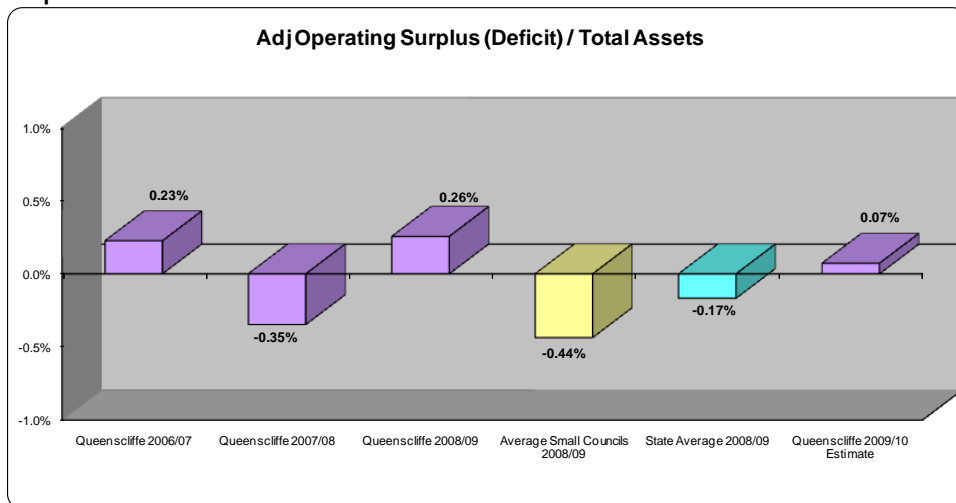
Factors influencing the Indicator:

In calculating the performance of Council, the Operating Statement result disclosed in the Annual Report has been adjusted to discount the effect of sale of assets, assets contributed by developers, capital income and the net effect of any asset revaluation / write off. The adjusted outcome is therefore a true reflection of the Council's performance.

Council's Ratio at 30th June 2009: 0.26%

Council's Group Ranking: 4th best outcome of the 21 Councils

Graphical Presentation:

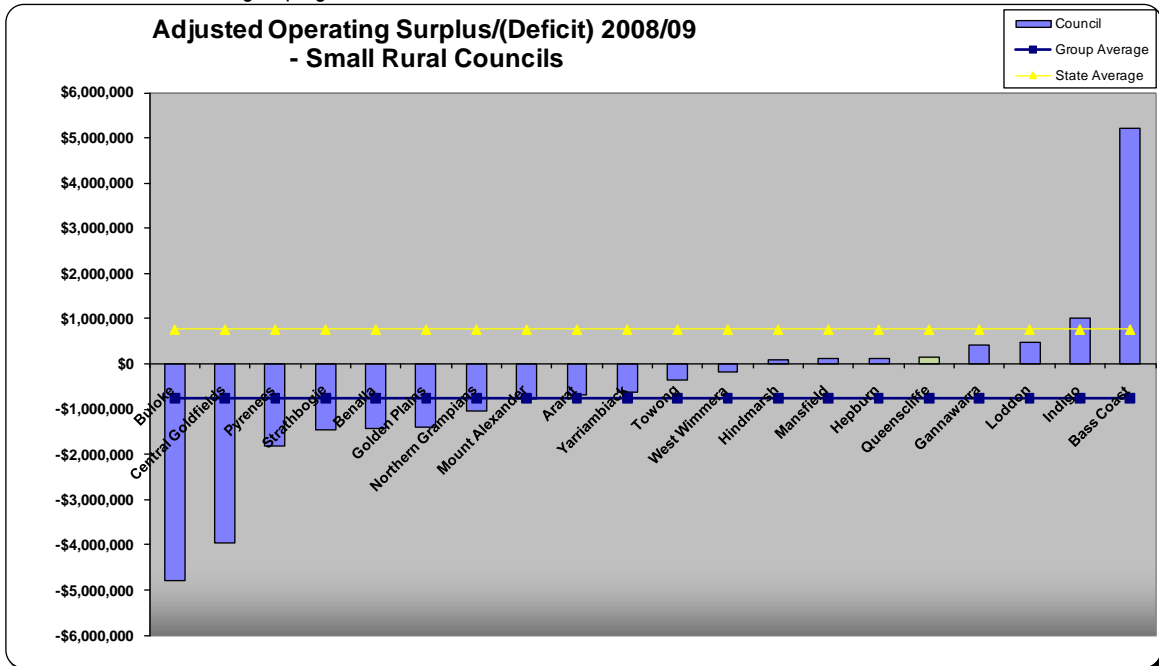


Commentary on Ratio:

Underlying operational outcome is an important measure of long-term financial sustainability and one which the Auditor-General pays particular attention to.

Queenscliffe's performance in this regard was low in 2007/08 but in surplus in 2008/09. This however, was due to the receipt of a prepayment of the first quarter of the 2009/10 Grants Commission funding. The 2009/10 estimate is forecasting a small underlying surplus which is a good result given only three quarters of the 2009/10 Grants Commission funding was received in this year.

The graph presented below highlights in straight dollar terms the various underlying operating results recorded by the Outer Metro Council grouping in 2008/09



5.2 Total Assets / Rateable Properties

Explanation

Determines the amount of Council assets per rateable property.

Warning Trend

A decreasing trend may indicate the declining useful lives of assets that are not being replaced by Council via capital expenditure.

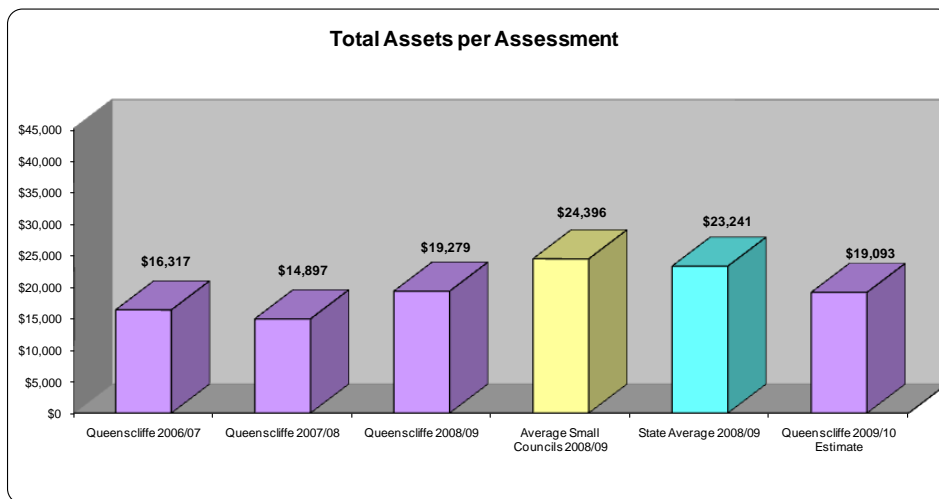
Factors influencing the indicator:

The policies that various Councils adopt in terms of what constitutes capital expenditure, varying approaches to estimating replacement costs and differing depreciation rates (useful lives) may affect this ratio by changing the Total Assets figure.

Council's Ratio at 30th June 2009: \$19,272

Council's Group Ranking: 6th lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Queenscliffe's ratio in this area is lower than the average for its Council grouping and the State average. The variance occurs in both realisable and non realisable asset types. Council has \$16,106 of realisable assets and \$3,173 of non realisable assets per assessment compared to group averages of \$6,918 and \$17,478 respectively.

The differing levels of infrastructure at Queenscliffe to the average Small Rural Council is obvious.. With only 40 kms of roads and no other major infrastructure it is expected that Queenscliffe would not be comparable in this category. Note Non-realiseable assets are basically all the infrastructure in a municipality, buildings are not considered infrastructure in this sense.

5.3 Current Assets / Current Liabilities

Explanation

This ratio is the traditional Working Capital Ratio that is widely used in private enterprises and is a mandatory performance measurement for Local Government.

Warning Trend

A decreasing trend, and in particular a ratio below 100%, may indicate Council cannot meet its current debt obligations (i.e. debts that will be due within the current twelve month period).

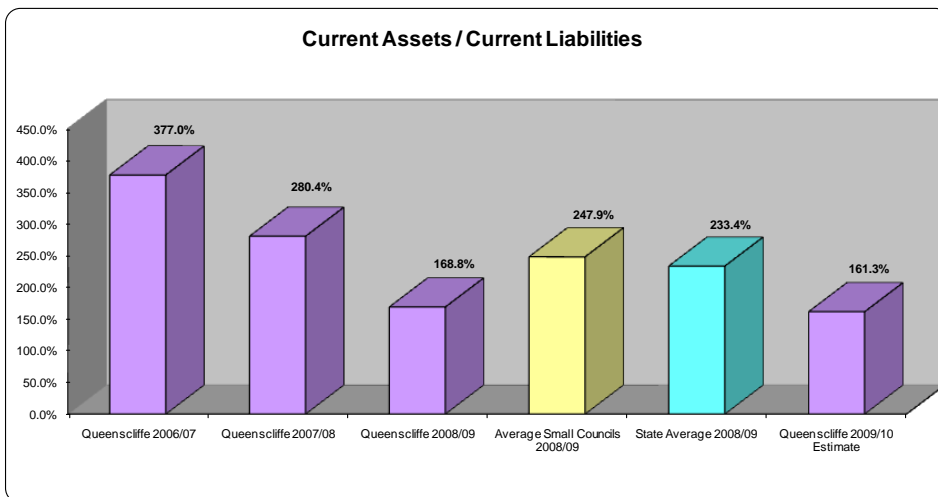
Factors influencing the indicator:

The level of cash funds held in Reserve funds will influence this ratio

Council's Ratio at 30th June 2009: 168.81%

Council's Group Ranking: 4th lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Queenscliffe's working capital ratio is in excess of the minimum prudential guideline of 100%, largely on the strength of the \$989k held in Council Reserve funds. The 2009/10 forecast is estimated to decrease as these reserve funds reduce even more.

Using the Balance Sheet an accumulated cash surplus can be calculated. This totals the residual amount of current assets (excluding land held for resale) after deducting current and non-current liabilities (excluding indebtedness) and reserve funds (excluding asset revaluation reserve) Using this calculation, Council has a residual cash surplus of \$76k as at 30 June 2009.- note this would be carried forward into 2009/10 as available cash in the Rates Budget.

5.4 Total Depreciation / Total Assets

Explanation

This ratio compares the total amount of depreciation charged as a percentage of the Total Assets base. Preferably the Total Assets should be less any non-depreciable assets such as land but to enable comparability across Councils, Total Assets had been used.

Warning Trend

A lower than average outcome may indicate that Council's depreciation rates are too low (i.e. that Council is assuming assets will have a longer useful life than those in comparable municipalities. A higher than average trend may indicate that Council is 'over-depreciating' and useful lives are too short.

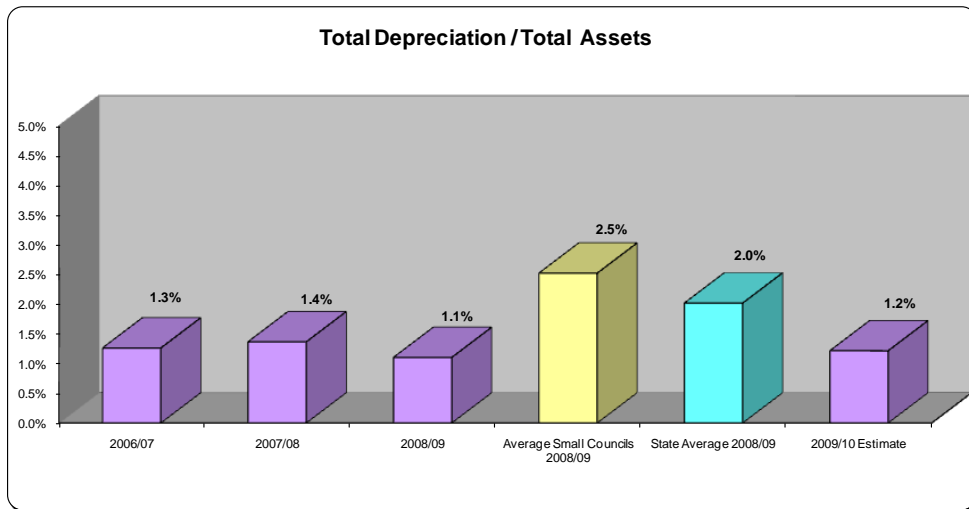
Factors influencing the indicator:

The assumptions made by each Council on useful lives of assets, and therefore depreciation rates used will influence outcomes. It is important that each Council thoroughly consider local conditions that impact on outcomes at an individual Council level.

Council's Ratio at 30th June 2009: 1.10%

Council's Group Ranking: Lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Queenscliffe's ratio is less than half the average outcome for Small Councils. The Asset Management Plan has reviewed Buildings within the municipality and determined on a condition based assessment that depreciation rates are too low in this category.

In terms of infrastructure assets, the following ratio is important.

5.5 Depreciation on Infrastructure / Total Infrastructure Assets

Explanation

This ratio compares the total amount of depreciation charged on infrastructure assets as a percentage of the Total Infrastructure Assets base.

Warning Trend

A lower than average outcome may indicate that Council's depreciation rates are too low (i.e. that Council is assuming assets will have a longer useful life than those in comparable municipalities). A higher than average trend may indicate that Council is 'over-depreciating' and useful lives are too short.

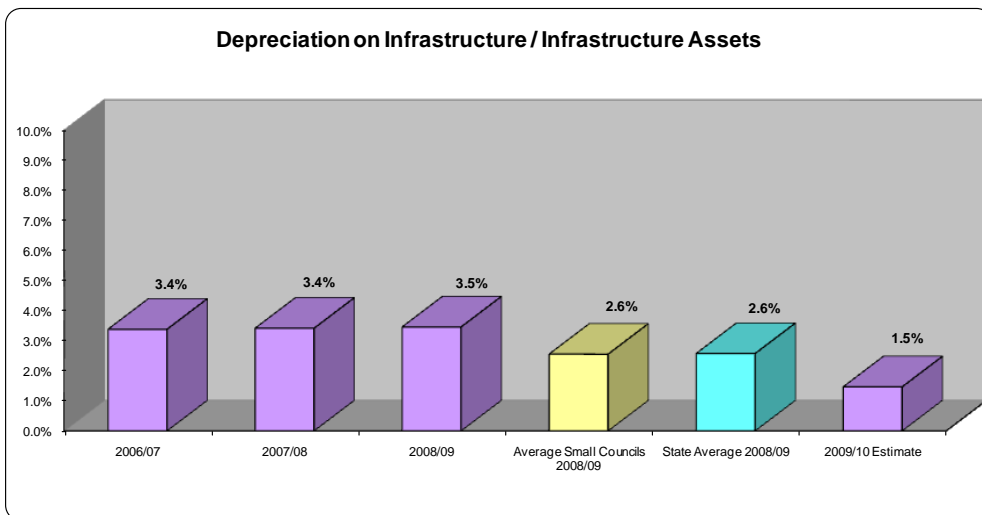
Factors influencing the indicator:

As per Section 5.4

Council's Ratio at 30th June 2009: 3.46%

Council's Group Ranking: 4th highest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Whilst similar to the previous ratio, this indicator looks solely at infrastructure assets to provide a checking mechanism that depreciation in this category is equivalent to like Councils.

At 3.46% for 2008/09, Queenscliffe is higher than the group average (2.6%). Asset useful lives and therefore depreciation rates can vary from Council to Council depending on the particular usage conditions at a local level. The Asset Management review determined that road assets were in better than average condition and thus depreciation rates may be lowered to reflect consumption over a longer period.

6. CAPITAL WORKS INDICATORS

6.1 Total Capital Outlays / Total (Cash) Expenditure

Explanation

This ratio presents the total capital outlays as a percentage of total cash expenditure. Total cash expenditure is calculated by utilising the Adjusted Total Expenditure and then deducting depreciation and adding back capital works expenditure.

Warning Trend

A decreasing trend may indicate an inability to renew assets as they reach the end of their useful lives. This indicator measures the total capital spend and includes funding of new assets in addition to asset renewal.

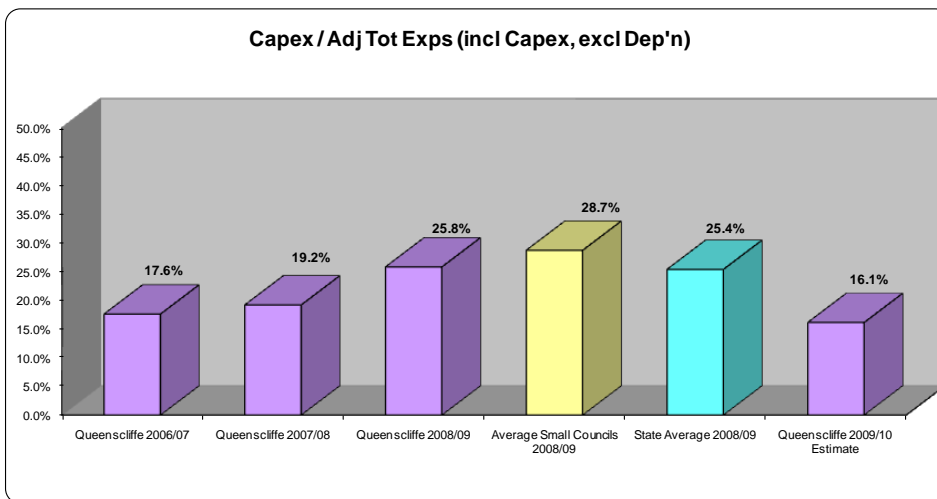
Factors influencing the indicator:

The consumption of non-recurring capital income such as large capital grants for individual projects, undertaking of borrowings and the use of Council reserve funds affect this measure significantly. Major projects that occur periodically and attract external funding will cause spikes in this ratio.

Council's Ratio at 30th June 2009: 25.79%

Council's Group Ranking: 9th lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

This ratio is one of the most critical in the data-set in terms of Council being in a position to both provide adequately for the renewal of its existing assets and meet community expectations in regard to new assets. Queenscliffe's performance in 2008/09 improved though still not to the level of other Councils.

Maintaining a strong capital works program continues to be a long term challenge for Council.

6.2 Total Capital Outlays per Assessment

Explanation

The ratio presents the total capital outlays per rateable assessment.

Warning Trend

A decreasing trend would indicate that cash outflows are not being used to create long term assets for future service provision and it would cast doubt about the long term viability of Council as assets reach the end of their useful lives.

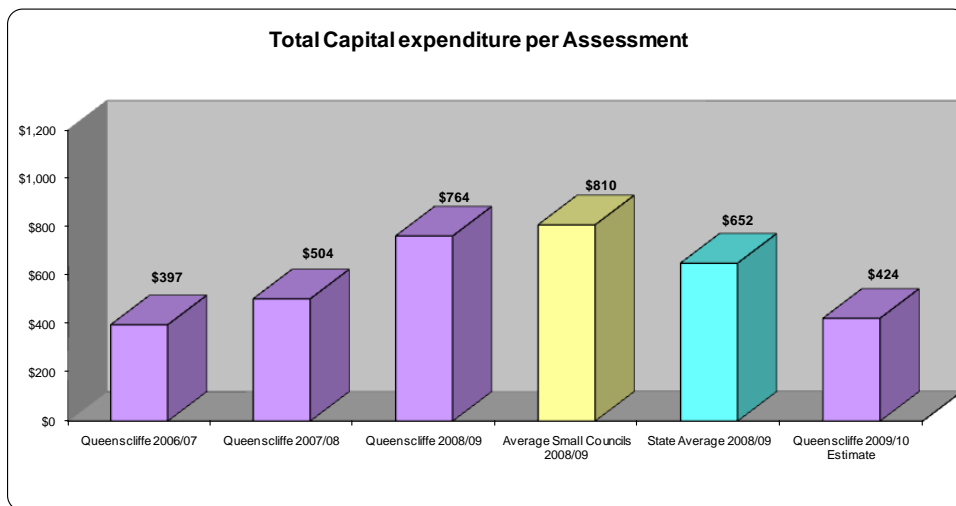
Factors influencing the indicator:

As per Section 6.1 In addition this ratio may be affected by Council growth in rateable assessments. (or lack of growth)

Council's Result at 30th June 2009: \$764

Council's Group Ranking: 10th highest of the 21 Councils

Graphical Presentation

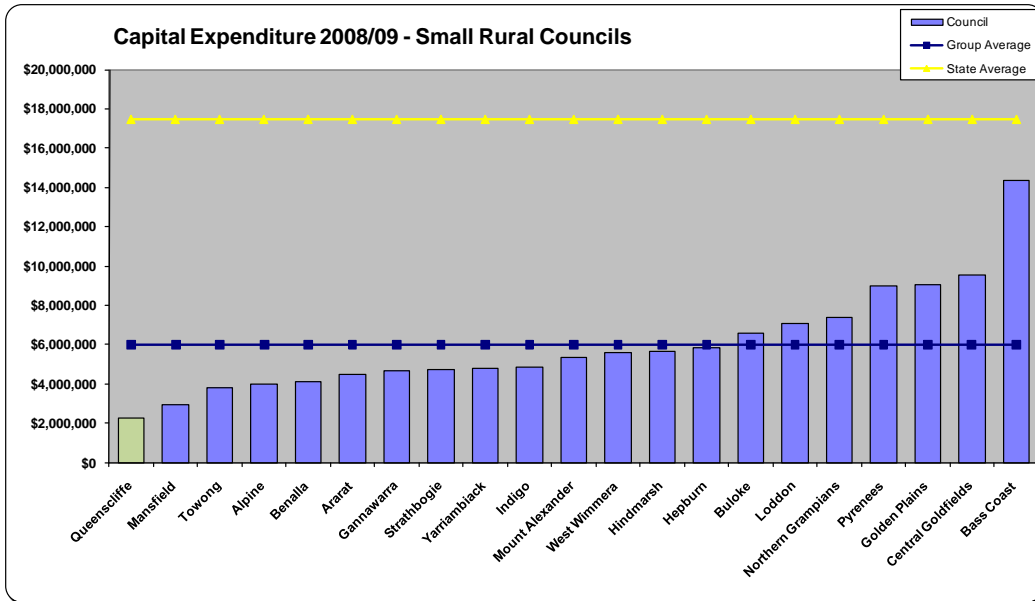


Commentary on Ratio:

As the previous ratio indicates that capital works was less than the average, this ratio also shows total capital spending per assessment below average though not by any great degree

The 2009/10 forecast is for a substantial decrease although it is noted that the 2008/09 figure included the completion of the Municipal Office refurbishment. Capital Projects at the other Small Rural councils include a large portion of grant funded Capital Works.

The graph presented below highlights in straight dollar terms the various Capital Expenditure results recorded by the Outer Metro Council grouping in 2008/09.



6.3 Capital Expenditure on Renewal / Total Depreciation

Explanation

This ratio presents the total capital expenditure on asset renewal and asset upgrade as a percentage of total depreciation.

Warning Trend

An indicator of less than 100% may indicate that Council is not sustaining its asset base.

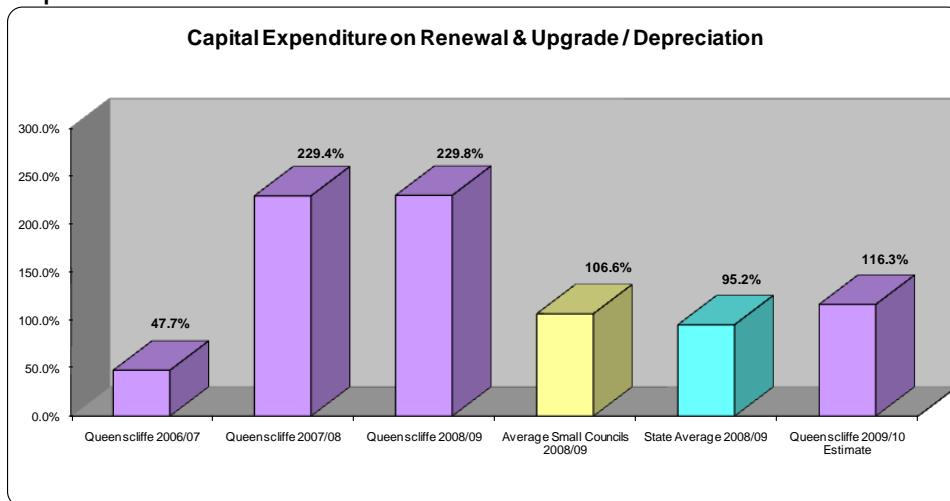
Factors influencing the indicator:

The influencing factors for this ratio are quite varied. All of the issues relating to capital funding outlined in the previous two sections are applicable as are those relating to depreciation rates, assumptions on useful lives of assets and what represents capital spending. Further, several Council's have not separated Asset Upgrade expenditure from new asset expenditure. All those issues aside, the ratio still presents a useful snapshot of Councils performance.

Council's Ratio 30th June 2009: 229.84%

Council's Group Ranking: Highest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

Queenscliffe's performance in this ratio has been extremely high over the past two years as the Municipal office refurbishment project occurred. With the bulk of the expenditure on this asset as renewal, this represents 229% of the depreciation figure. Whilst it is acknowledged at the outset that depreciation is not a perfect measure in this regard, Council's ratio outcome is a measure of Council's ability to fund its asset renewal needs in the longer term.

A performance at over 100% would position Council well in terms of replacing assets as they fall due for replacement, though in reality there will be peaks and troughs, so the average over time should be measured. This ratio also does not account for any backlog of works that may exist. (see Asset Management section)

6.4 Total Capital Outlays / Total Rate Revenue

Explanation

This ratio presents the total capital outlays as a percentage of total rate revenue

Warning Trend

A decreasing trend may indicate that the cost of providing operational services is consuming more of the rate revenue base, leaving fewer funds available for asset replacement/ renewal.

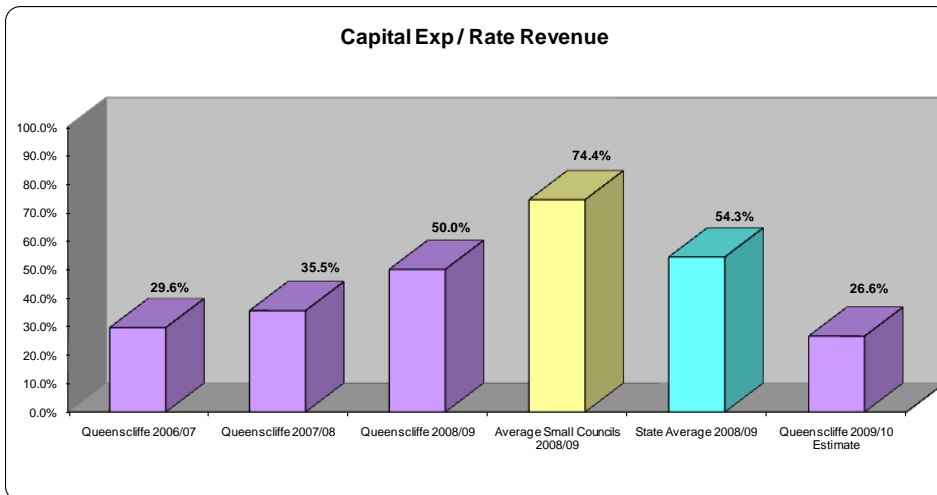
Factors influencing the indicator:

As per previous capital works sections. Councils rating strategy and levels of rate increases will impact on this ratio.

Council's Ratio at 30th June 2009: 50.01%

Council's Group Ranking: 8th lowest of the 21 Councils

Graphical Presentation



Commentary on Ratio:

This ratio measures the conversion of rate dollars into capital spending. Queenscliffe's performance in this ratio at 50.01% is considerably less than the average result albeit with an improved trend over the three year period.

Council's capital spending trends are linked to its net operational surplus result plus the availability of external funding.

7.0 FINANCIAL SUSTAINABILITY INDICATOR

The following is an explanation of the financial sustainability indicator that has been developed. The text and graph outline the various components of the indicator including the inherent limitations that go with developing such an approach.

Putting the Financial Sustainability Indicator in Context - The PRO's and CON's

The definition and measurement of financial sustainability is frequently a topic of much discussion within Local Government and is not without a degree of debate as to its relevance and accuracy. The following comments provide important context in understanding the approach that has been used in calculating the Financial Sustainability Indicator. Just as importantly, it provides some indications of the advantages and limitations of the approach adopted, given it has been restricted to information that is simply available from audited annual reports.

It must be remembered at the outset that this is simply a measure of FINANCIAL sustainability and not one of COMMUNITY sustainability and well being. A Council that devotes 100% of its capital funding to renewal may well score positively in the context of its financial sustainability but may not be in a position to deliver the much needed future services and facilities desired by its constituents. Conversely, Councils that may score poorly in a financial context may be delivering an excellent local government service from a community needs perspective.

It should further be noted that the indicator is derived solely from the information contained in Annual Reports and may therefore not accurately reflect other information that is known only to any particular Council. Future cash inflows from developers is, for example, one element that is unable to be captured in this process. The FSI's calculated are a measure of sustainability as at 30 June 2009.

From a purely financial analysis approach, the FINANCIAL sustainability indicator presented below has used an indexed scoring system for four key elements of financial performance. Each element is scored and then the sum of the scores is represented as the overall Financial Sustainability Indicator.

The four elements utilised are:

- > Underlying Operating Result as % of Total Assets
- > Accumulated Cash as % of Adjusted Total Revenue
- > Debt as % of Own Source Revenue
- > Asset Renewal as % of Depreciation

Underlying Operating Result as a % of Total Assets

The underlying operating result has been assessed following the removal of gifted assets, developer contributions, asset revaluations and write offs and the impact of the sale of fixed assets. Capital income has also been deducted on the grounds that this represents an 'unmatched' income, with the expenditure not being included, and is a non-recurring income source. The aim has been to reach the underlying 'operational' position and then to assess whether this had added to the net asset base of Council or eroded this base.

Accumulated Cash as a % of Adjusted Revenue

The purpose of this indicator has been to acknowledge and recognise the strong cash position of many Councils despite perhaps not performing as well in other indicators. Obviously if a Council has \$50Million in discretionary Council Reserves or accumulated cash surplus (for example) it is in a strong position to meet the immediate financial challenges. The approach taken has been to measure the degree to which Revenue (adjusted for abnormals) funds the Current and Non-Current Liabilities (excluding loans). The residual current asset base (described as accumulated cash) is then expressed as a percentage of Adjusted Revenue.

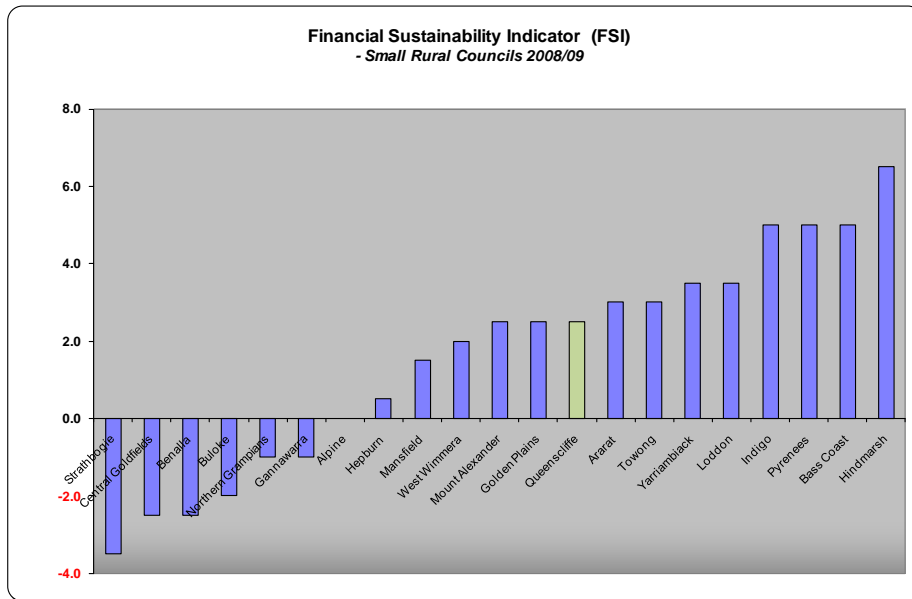
Debt as a % of Own Source Revenue

This ratio is simply about the degree of flexibility that Council has available to it in the future to utilise borrowings as a key source of funding for capital works. Obviously the higher amount of existing debt, the less flexibility Council will have in using this funding source.

Asset Renewal/Upgrade as a % of Depreciation (for 4 years)

Asset Renewal and Asset Upgrade figures have been obtained from the Standard Statement of Capital Expenditure or Note to the Financial Statements and expressed as a percentage of Depreciation. This ratio provides a far more accurate view than utilising Total Capital spend compared to Depreciation. The limitations of this approach are however that the result is a four year window only - it doesn't necessarily provide an accurate indication of ongoing performance - nor does it indicate the existing level of infrastructure backlogs that individual Councils may have. It is intended that as each year passes from this point - the accumulated result (Renewal/Upgrade compared to depreciation) can be calculated. It must also be acknowledged that there remains a great deal of industry disparity in terms of approaches to depreciation rates and asset useful lives.

Queenscliffe's performance in terms of the sustainability indicator places Council at the middle of the group.



Council scores positive results for its underlying operating surplus, moderate indebtedness and its ability to spend capital dollars on asset renewal/upgrade in comparison to annual depreciation figures. A low outcome has resulted in terms of the low accumulated cash surplus.

Queenscliffe's Sustainability Indicator		
Component	Result	Score
Underlying Operating Result	0.26%	0.50
Accumulated Cash Position	14.52%	(1.00)
Indebtedness	29.25%	1.00
Asset Renewal & Upgrade	147.05%	2.00
Total		2.50

Whilst not a perfect measure of sustainability, monitoring the trend over time and using the indicator as a tool for long-term planning would ensure Council addresses all the components that together ensure financial viability and sustainability into the future.

Appendix C - SURVEY OF ROAD ASSETS
- Moloney Asset Management Systems

Overall Report Findings

The following are the major findings coming out of the condition survey and analysis of results within this report.

1. *The total present shortfall in renewal funding for the whole of the road network is estimated at \$153 PA. Which means that council is fully funding its present renewal demand*
2. *It is estimated that Council has experienced a total decline in overall asset condition of 2.33% since the time of the last assessment in 2003.*
3. *Reseals have been very well funded in the past and are as a consequence in excellent condition.*
4. *The sealed road pavements are old but remain in excellent condition largely because of the good subgrades within the district*
5. *The kerb assets are in good condition but not quite as good as the pavements and sealed surfaces*
6. *Footpath assets were found to be in fair condition and had declined in overall condition since 2003. There was also an estimated \$38,000 in isolated failure repairs identified.*
7. *The accounting life cycles and unit rates within the asset management system and as recorded in this report do need to be reviewed in light of the findings here.*
8. *It is recommended that total renewal expenditure on the whole of the road asset group be lifted by \$11,153 PA for the next 3-years to a total level of \$143,000, which is very close to steady state as it goes.*



Appendix D - BUILDING ASSET MANAGEMENT & CONDITION REVIEW
- CT Management



Building Asset Management & Condition Review

Summary

It is now considered important for Council to review its current Building Renewal Funding program and update it to now tailor it to meet the condition based renewal requirements determined from this assessment. This review will ensure that as a minimum, the buildings required, continue to operate and physically / structurally provide the functional level of service that have been assigned to them.

Whilst Council's building portfolio is in above average condition now, over the next 5 years, predicted annual required funding shortfall levels will significantly increase to the value of approximately \$390,000 per annum by 2015. Realising this financial demand provides Council with the opportunity to implement funding strategies over coming years to build up to this level.

Having regard to the renewal demand, it is considered important that Council undertake a critical review of each building asset and determine the level of service it requires in line with its Corporate Plan direction. The issue of usage of each building and Council's long term strategic priorities need to be considered. This review may identify opportunities for improved usage, rationalisation of facilities. The answer to meeting the significant renewal demand needs to consider financial as well as social/environmental factors.

Like other Council's across Australia, Queenscliffe Council is facing the challenge to meet the increasing renewal funding demands whilst continuing to provide the required levels of service. The recent results from the MAV review of renewal demands across Victoria highlight this issue. The adjacent chart is indicative of the renewal "gap" for key asset groups for small shires.



Best practice Councils have recognised the importance and imperative of using the strategic financial planning process to develop strategies to enable transition from current practice to more effectively addressing the asset renewal gap. As Queenscliffe Council is currently developing a longer term financial plan, it provides an ideal opportunity to address and better align service needs to the long term renewal needs. In developing its long term financial and strategic plan, opportunities and strategies are available for Council to address the renewal gap including:

- Increased Council funding allocation to asset renewal;
- Maintaining attention on attracting funding from other levels of Government to undertake **asset renewal** - this is clearly demonstrated in Council's increased attention in this area with its current grant applications:
- Reviewing the usage of existing facilities, determining the best use of Council resources and where possible considering rationalising facilities to provide improved service within less facilities.

Reviewing and implementing the various strategies available will have a significant positive impact on the challenges facing Council.

Key recommendations are:

1. Develop a long term financial strategy to bridge the renewal gap when funding shortfall needs increase to approximately \$390,000 around 2015.
2. Given Council's reasonably above average condition of its building stock, reappraise the current building asset renewal expenditures to ensure more realistic and affordable expenditure levels for the short term (next 5 years) and plan to ramp up budget allowances when predicted funding needs will rise dramatically as shown in the financial modelling. (Chart 2)
3. Implement a 3 to 4 yearly inspection program for all buildings and an annual inspection for those buildings or elements with a condition rating of 7 or above to enable a condition based building works programs to be developed and assessed taking into consideration the needs of building renewal and or replacement.
4. Restructure the Budget documents to clearly distinguish Asset Management funding requirements in the following categories:
 5. Building Operations
 6. Building Maintenance (routine and cyclic)
 7. Building Asset Renewal,
 8. Building Asset Upgrade/Expansion,
 9. Additional operating costs of Upgrade/New works.
10. This would provide a more accurate understanding of the Councils building expenditure patterns and provide better informed future financial predictions.
11. Develop a Building Asset Management team as a sub group of the existing cross functional multi disciplinary Asset Management Team to ensure that officers of the Borough of Queenscliffe continually monitor and upgrade, as necessary, the building asset management portfolio.
12. The Building Asset Management Team commence a review of the building stock and their required functional level of service and usage to determine their role in the provision of municipal services in the future, with a view to rationalising buildings which will have a significant impact on reducing the short to medium term renewal funding requirements.
13. Review Council's long-term ownership of individual building assets, especially having regard to those designated as predominately for Council community purpose versus those of foreshore areas for general community use outside of the Queenscliffe community. This review should also take into consideration the required functional level of service, the community's expectations, asset rationalisation and develop a long term financial plan that considers external funding and internal funding programs. While asset rationalisation may present major challenges to implement it is difficult to justify such significant assets having limited use when the opportunities exist to achieve a reduced number of assets that are well used and maintained.
14. Review Council ownership and associated financial liabilities of all buildings and develop 'Renewal Funding' management tactics to ensure that all buildings are treated at or before the nominated intervention level.
15. Record as constructed costs for all renewal works to provide more accurate "as constructed estimates" for future modelling.
16. Add additional buildings to the Building Information Asset Register database as they are built or identified
17. Council building replacement costs be reviewed to ensure they accurately represent replacement cost rather than valuation.
18. Continue to update the 'building asset portfolio' on an ongoing basis.
19. In line with the predicted Renewal and Maintenance funding requirements continue the preparation of an Asset Management Plan which examines the implications of continued ownership of the current building stock and Council's role in the provision of municipal services in the future

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