# The Institute of Chartered Accountants in Australia

## Victorian City Council Model Budget – 2013/2014

A best practice guide for reporting local government budgets in Victoria

11th Edition

The Institute of Chartered Accountants in Australia

# The Institute of Chartered Accountants in Australia

The Institute of Chartered Accountants in Australia (the Institute) is the professional body representing Chartered Accountants in Australia. The Institute is a founding member of the Global Accounting Alliance (GAA), an international coalition formed by the world's premier accounting bodies.

The GAA has a membership of 750,000 and promotes quality professional services to share information and collaborate on international accounting issues. In Australia, the Institute's reach extends to more than 70,000 of today's and tomorrow's business leaders, representing some 58,000 Chartered Accountants and 12,000 of Australia's best graduates who are currently enrolled in our world-class post-graduate Chartered Accountants program.

Chartered Accountants are highly trained business advisors who offer a wide range of services including business management, financial planning, tax, auditing, forensic accounting and other areas. Through a combination of precise, insightful and ethical thinking, Chartered Accountants are without equal in powering the right business decisions and serving as a financial conscience within the business community.

The Institute was constituted by Royal Charter in 1928 and is focused on leadership, protecting the standards and reputation of the accounting profession and influencing the policies and regulations that affect the industry.

For further information about the Institute visit www.**charteredaccountants.com.au**

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This publication has been prepared by members of the Institute of Chartered Accountants in Australia and practitioners working in the local government sector. While every effort has been made to ensure that it complies with relevant Victorian legislation, neither the Institute nor any members of the Working Party shall be liable on any ground whatsoever to any party in respect of any errors in, or omissions from it. The information contained in this publication is a general guide only. It is not a professional advice and should not be used, relied upon or treated as a substitute for specific professional advice.



All information is current as at March 2013.

## Contents




The Institute of Chartered Accountants in Australia would like to thank the Municipal Association of Victoria for its continuing sponsorship of the production of this Guide.

MUNICIPAL ASSOCIATION OF VICTORIA

The Institute would also like to thank the following for their support for this project.

FINPRO

LOCAL GOVERNMENT LGPRO PROFESSIONALS THE LEADING VOICE

# Introduction to this guide

## Background

In April 2001, a specialist taskforce established by The Institute of Chartered Accountants in Australia (the Institute) reported on its survey of Victorian local government budgets. The report was critical of the quality and content of local government budget reporting and made many recommendations aimed at improving the quality of budget reports. The main failings of budget reports were seen to be:

- The focus on current year performance, with little consideration given to the longer term
- The need to develop budgets in the context of corporate and business plans
- The need for consistency with annual financial statements.

Following consultation with key representative bodies in the local government sector, Local Government Professionals, Local Government Finance Professionals and the Municipal Association of Victoria, the Institute convened a Working Party which included members of its Local Government Taskforce and key local government practitioners. The aim of the Working Party was to develop a Best Practice Guide (Guide) for use by local government practitioners in the preparation of annual budget reports. There was a consensus that the Guide should focus on improving reports which are released into the public domain to various stakeholders and that the findings and recommendations of the Institute report would provide an excellent basis for the development of the Guide.

Edition 1 of this Guide was the result of those findings and represented a major achievement in terms of providing practical guidance regarding the information that annual budgets should provide to stakeholders.

## Revision of the Guide

The eleventh edition of the Guide entitled Victorian City Council Model Budget - 2013/2014 builds on previous editions in improving the usefulness of the budget to financial users. It also continues to address practical matters affecting preparers which have been communicated through surveys and other feedback mechanisms.

The key changes included in this edition of the Guide are:

- Amendments to Section 9 providing contextual information on rating levels and the rating structure, and referencing the Council's broader rating strategy
- Information on the work being undertaken by the Department of Planning and Community Development in developing a new Local Government Performance Reporting Framework. This will impact on the performance measures to be included in budgets from 2014/15 (section 2)
- New commentary relating to changes in the Local Government Act relating to differential rates and the draft Ministerial Guidelines released in January 2013 (section 9 and appendix B)
- Revised income and expense charts within the analysis of operating budget (section 4)
- Minor changes to the presentation of standard statements to align with the disclosures in the Model Financial Statements
- New commentary relating to the Fire Services Property Levy that will commence from 1 July 2013 (section 3)
- Updated commentary on borrowing considerations (section 10)
- Updated description of topical issues influencing Council budgets including the carbon price package, increase in tipping fees payable to the Victorian Government, and the defined benefit superannuation call and funding thereof.

The Guide also addresses issued and/or amended Accounting Standards that are applicable to the forthcoming reporting period. For this edition there have been no significant new or amended Accounting Standards that have required changes, although the Guide notes that 'other comprehensive income' within the Standard Income Statement should be classified into its relevant components.

To assist practitioners in focusing on the changes in this Guide, this revised edition is supplemented by a summary of changes, which can be accessed on the Institute's web site as a separate document.

## Structure of the guide

Sections 1 to 10 and the appendices to this Guide represent the core components of a suggested annual budget report. There are some key points to highlight regarding the contents of the Guide:

- The Guide is structured in four layers including an overall summary of the budget outcomes and processes, an overview of the budget (sections 1 to 3), an analysis of the key issues embodied in the budget (sections 4 to 7) and linkages to the long term strategies of council (sections 8 to 10)
- The Guide includes appendices setting out greater levels of detail on important matters directly related to the budget and statutory disclosures required by the Local Government Act 1989 and the Local Government (Finance and Reporting) Regulations 2004
- The Guide provides commentary at the end of each section which has been designed to assist practitioners in deciding what information they should include in budgets and how it should be disclosed. The commentary does not form part of the Budget Report.

The structuring of the Guide into four layers is considered best practice as it recognises that there are different levels of interest in the budget and therefore different levels of detail stakeholders seek when reviewing a local government budget. It is recognised that the Guide is not mandated by legislative or other means but its use is recommended. The Local Government Investigations and Compliance Inspectorate has encouraged councils to refer to the Model Budget which will assist in ensuring all statutory requirements for council budgets are met. As with previous versions of this Guide, we have communicated with the Department of Planning and Community Development (DPCD) throughout the development of this revision.

While the Working Party has a strong view that the type of information included in the Guide is relevant and should be disclosed it accepts that good disclosure can be achieved in a variety of ways. The Working Party therefore does not seek to mandate the type of disclosures included in the Guide. However, it is worth noting that the earlier versions of this Guide have enjoyed overwhelming support from practitioners and the Working Party continues to receive positive feedback about the Guide.

## Context of the budget within the strategic planning framework

This Guide has been designed to demonstrate how a council's budget forms part of, and should be driven by, the strategic planning framework. Section 1 of the Guide shows how to link the annual budget with council's long term objectives as defined in the Council Plan, and with the Strategic Resource Plan. This is further explored in Section 2 which details the activities, initiatives and key strategic activities funded in the budget which will lead to the achievement of the Council Plan.

The focus of the annual budget becomes the resourcing of service delivery in the short term, but within the context of longer term financial sustainability. With this in mind, the key indicators within the budget are:

- The surplus or deficit for the year
- The underlying operating result which excludes the impact of non-operating items such as capital grants and non-cash contributions from developers
- The adequacy of cash flows from operations, together with available cash and investments to fund capital works and borrowing commitments.

The Guide shows that within the context of a sustainable strategic resource plan, it is acceptable for a council to budget for an operating or cash flow deficit in one or more years, as long as it has adequate reserves of cash and investments. Stakeholders should be concerned if actual financial performance varies significantly from the projected performance as set out in the Strategic Resource Plan.

## Consistency with annual reporting requirements

One of the major criticisms of local government budget reports in the past has been the lack of consistency of accounting treatments and disclosures between annual reports and budget reports. The criticism was based on the fact that inconsistent reporting conceals important information and renders analysis of budgeted and actual results very difficult.

This Guide is based on the standards that apply to annual reports and recommends that well founded budgets have four key elements:

- Operations
- Financial position

- Cash position
- Capital works.

These key elements are critical in demonstrating an integrated and rational approach to financial management with linkages to the Council Plan and Strategic Resource Plan. This approach is also consistent with the concept of “Standard Statements” as prescribed by the legislation.

## What is Victorian City Council?

Victorian City Council (VCC) is the name of the fictional council upon which this Guide is based. VCC is a large council with a population of over 100,000 residents. It has a diverse mix of communities with differing ethnic backgrounds. While it has elements of older inner city development, it also has some areas of newer development akin to outer suburban Melbourne.

VCC provides a wide range of services to its residents ranging from most forms of community welfare and support to recreational and sporting activities. There is a strong industrial base which provides good employment opportunities and VCC recognises that this must be fostered if it is to remain a viable council capable of delivering services to its community. VCC has a strong urban planning function because of the many planning issues which arise constantly.

Because of the need for renewal of some ageing infrastructure and the demand for new services, VCC has the challenge of finding adequate funding for its large capital works needs, particularly in the short term. VCC has decided that it does not wish to use borrowings to a major extent for funding its needs and therefore wants to be largely self reliant in terms of its finances. It is a council that is best described as financially prudent and one which wants to make its strategic decisions on the basis of well researched information and within the context of what it can afford.

## Use of the Guide

This Guide is a serious effort aimed at providing local government practitioners with definitive guidance on the preparation of best practice budget reports. It is based on real examples and is particularly relevant to local government in Victoria.

The Guide also provides a framework for any budget reports prepared by councils for dissemination in the public domain. It therefore does not replace the detailed reports generated by management in the preparation and analysis of local government budgets. The Working Party believes that distribution to the public of information used by management to monitor and control council activities is inappropriate and likely to confuse many stakeholders.

Each council will need to adapt the Guide to meet its own individual objectives and address its own issues. Assumptions and content will therefore need to be varied from the wording used in the Guide to address the specific circumstances of each council.

Any feedback on the Guide will be enthusiastically welcomed and used to enhance future updates. Feedback or commentary should be directed to:

Attention: Mr Duncan Pittard
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Telephone: 03 9641 7400
Email: duncan.pittard@charteredaccountants.com.au
Website: charteredaccountants.com.au

## Working party membership

As with earlier editions of the Guide, each member of the Working Party has made a significant contribution to this edition's structure and content. Many conceptual and practical issues have been vigorously debated. The Guide represents the collective's preferred position on technical and other matters and the sector practitioners on the Working Party have had a significant influence on the content of the Guide, thereby ensuring that it remains relevant and retains its practical and best practice focus.

The Working Party is comprised of representatives from the accounting profession, local government practitioners and major local government sector peak bodies. Working Party members are listed below.

### Local government practitioners

| | |
|---|---|
| Bruce Dobson, CA | Boroondara City Council (Working Party Chairman) |
| Lucy Roffey, CA | Mount Alexander Shire Council |
| *Also see FINPro representatives | |

### Accounting profession

| | |
|---|---|
| Kevin Adams, CA | McLean Delmo |
| Joella Gould, CA | UHY Haines Norton |
| Martin Thompson, CPA | Crowe Horwath |
| Rob Wernli, FCA | DFK Collins |

### Local Government Finance Professionals (FINPro)

| | |
|---|---|
| Kevin Ayre, CPA | Manningham City Council |

### Local Government Professionals (LGPro)

| | |
|---|---|
| Marianne McArthur, BA LLB(Hons) | Hobsons Bay City Council |

### Municipal Association of Victoria (MAV)

| | |
|---|---|
| Allan Holmes, FAICD | Financial Consultant |

## Compliance checklist

This section lists the items that must be included in the budget in order for it to comply with the requirements of the Local Government Act 1989 and the Local Government (Finance and Reporting) Regulations 2004. It is recommended that the compliance checklist be used at the conclusion of budget preparation to ensure compliance with legislative disclosure requirements.

| | Requirement | Act & Regs | Model Budget | Yes/ No |
|---|---|---|---|---|
| 1. | Standard statements (income statement, balance sheet, cash flows, capital works) | Section 127(2)(a) Regulation 5-7 | App A | |
| 2. | Activities and initiatives to be funded in the budget | Section 127(2)(b) | Sect 2 | |
| 3. | Statement as to how the activities and initiatives will contribute to achieving the strategic objectives specified in the Council Plan | Section 127(2)(c) | Sect 2 | |
| 4. | Key strategic activities to be undertaken and performance targets and measures for each | Section 127(2)(d) | App D | |
| 5. | Details of the rates to be declared | Section 158(1) | App B | |
| 6. | Total proposed borrowings | Regulation 8(a) | App B | |
| 7. | Debt redemption | Regulation 8(b) | App B | |
| 8. | Rate in the dollar | Regulation 8(c)(i) | App B | |
| 9. | Estimate of rates by type | Regulation 8(c)(ii) | App B | |
| 10. | Total amount to be raised by rates | Regulation 8(c)(iii) | App B | |
| 11. | % change to rate in dollar | Regulation 8(c)(iv) | App B | |
| 12. | Number of assessments by type of rate and change | Regulation 8(c)(v) | App B | |
| 13. | Total number of assessments | Regulation 8(c)(vi) | App B | |
| 14. | Basis of valuation used | Regulation 8(c)(vii) | App B | |
| 15. | Estimated total value of land by type and change | Regulation 8(c)(viii) | App B | |
| 16. | Municipal charge | Regulation 8(c)(ix) | App B | |
| 17. | Unit amount to be levied as service rate or charge | Regulation 8(c)(x) | App B | |
| 18. | Amount to be raised by service rate or charge and change | Regulation 8(c)(xi) | App B | |
| 19. | Total amount to be raised from rates and charges | Regulation 8(c)(xii) | App B | |
| 20. | Any significant changes that may affect the amounts to be raised | Regulation 8(c)(xiii) | App B | |

# Victorian City Council Budget Report – 2013/2014

This Budget Report has been prepared with reference to The Institute of Chartered Accountants "Victorian City Council Model Budget 2013/2014" a best practice guide for reporting local government budgets in Victoria.

The Institute of Chartered Accountants in Australia

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## Mayor's introduction[1]

It gives me great pleasure to present this Budget to the community of Victorian City Council.

We will increase rates by 3.9 percent in the 2013/14 financial year. This level allows us to maintain existing service levels, fund a number of new initiatives and continue to allocate additional funds to renew the City's infrastructure.

The rate increase has been kept in line with the level foreshadowed in Council's Strategic Resource Plan adopted in the previous year, despite a number of significant budget impacts including higher than expected wage increases, reduction in Victorian Grants Commission funding and increases in the levy payable to the Victorian Government upon disposal of waste into landfill. Funding of the defined benefits superannuation call has also impacted on Council's financial position.

The proposed budget includes a number of new initiatives:

- Expansion of the community grants program ($0.44 million)
- Implementation of the aged partnerships program ($0.99 million)
- Expansion of arboriculture services ($0.15 million)
- Introduction of Council provided street cleansing service ($1.4 million)
- Introduction of multicultural library and leisure services
- Expansion of youth services ($0.06 million)
- Opening of the Homestead Centre for Decorative Arts ($0.28 million)
- Resourcing of the employment strategy ($0.18 million)
- Introduction of a range of alternative payment options
- Opening of a new customer service centre at Victorian Community Centre ($0.11 million).

The total Capital Works program will be $30.72 million, of which $7.13 million relates to projects carried over from the 2012/13 year. Of the $30.72 million in Capital funding required, $8.87 million will come from Council operations, $7.96 million from external grants and asset sales, and the balance of $13.89 million from reserves and cash and investments.

Highlights of the Capital Works program include:

- Roads ($7.13 million) – including reconstructions, roads to recovery projects, resheeting, footpaths and the Integrated Transport Plan
- Drains ($1.65 million) – including road drainage replacement works, stage 1 of the Victoria Park Lake redevelopment and implementation of the Stormwater Management Plan
- Open space ($3.29 million) – including playground equipment, irrigation systems, street trees and completion of Victoria Park
- Buildings ($8.34 million) – including pavilion upgrades, construction of the Victorian Community Facility, construction of a Velodrome and State Bowls Centre and completion of the Block Arcade redevelopment
- Plant and equipment ($4.83 million) – including information technology, library materials and scheduled replacement of Council's fleet.

This budget was developed through a rigorous process of consultation and review and Council endorses it as financially responsible.

**Cr Jo Johnson**
**Mayor**

### Commentary – Mayor's introduction

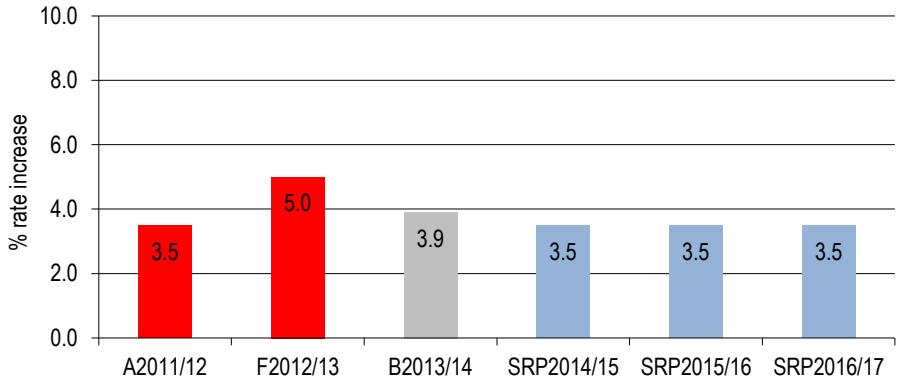
**Purpose of Mayor's introduction**

1. The purpose of the Mayor's introduction section is to demonstrate ownership of the Budget by the Council. It also allows the Mayor to highlight key issues of interest to the community including new operating initiatives and capital works projects. The Mayor may want to comment on the rate increase but this is not considered essential in this section.

## Chief Executive Officer's summary[1]

Council has prepared a Budget for the 2013/14 financial year which seeks to balance the demand for services and infrastructure with the community's capacity to pay. Key budget information is provided below about the rate increase, operating result, service levels, cash and investments, capital works, financial position, financial sustainability and key strategic activities of the Council.

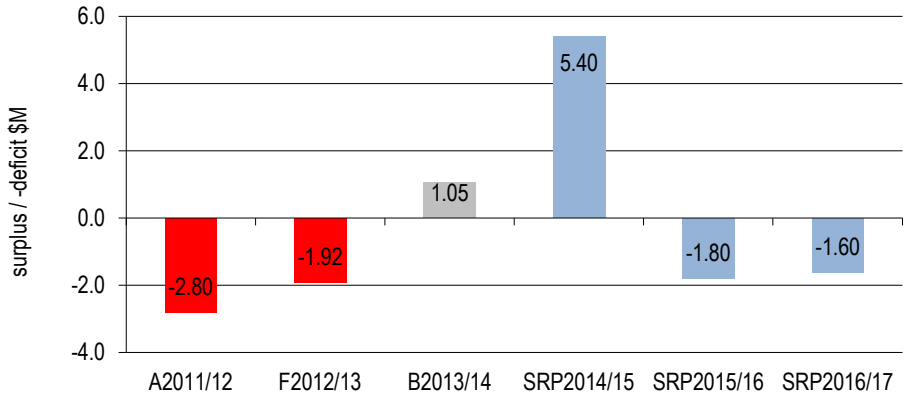
### 1. Rates




A = Actual F = Forecast B = Budget SRP = Strategic Resource Plan estimates

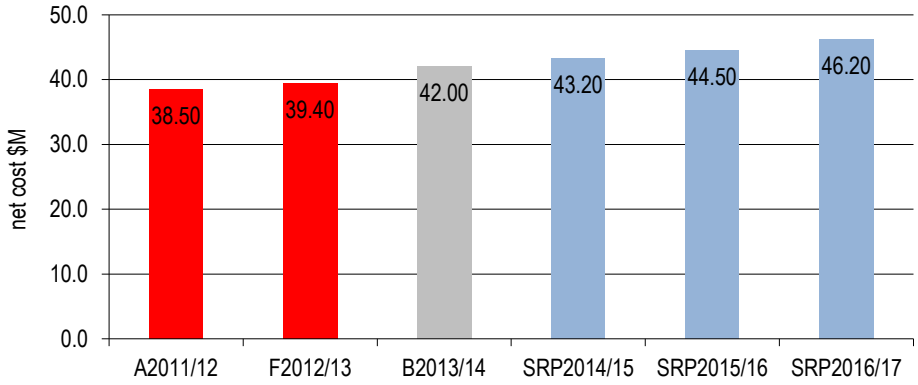
It is proposed that general rates increase by 3.9% for the 2013/14 year, raising total rates of $43.46 million, including $0.43 million generated from supplementary rates. Of the 3.9% increase, 3.0% will go toward maintaining service levels and meeting the cost of a number of external influences affecting the operating budget including a $0.40 million reduction in the Victorian Grants Commission allocation. The remaining 0.9% increase will go toward capital works to address the asset renewal needs of the City. This rate increase is in line with the level foreshadowed in Council's Strategic Resource Plan adopted in the previous year. (The rate increase for the 2012/13 year was 5.0%).

### 2. Operating result



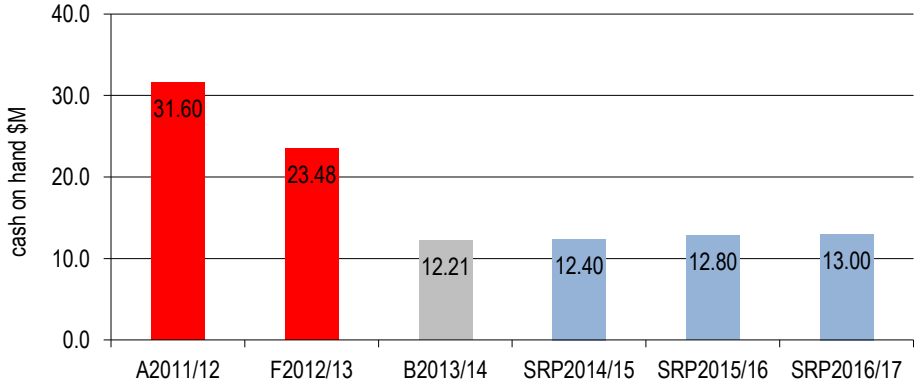

The expected operating result for the 2013/14 year is a surplus of $1.05 million, which is an increase of $2.97 million over 2012/13. The improved operating result is due mainly to external funding for capital works which is forecast to increase by $3.37 million to $6.28 million. The underlying result, which excludes items such as capital grants and non-cash contributions is a deficit of $5.23 million, which is an increase of $0.41 million over 2012/13 – refer to section 7 of this summary for further information. (The forecast operating result for the 2012/13 year is a deficit of $1.92 million).

## 3. Services



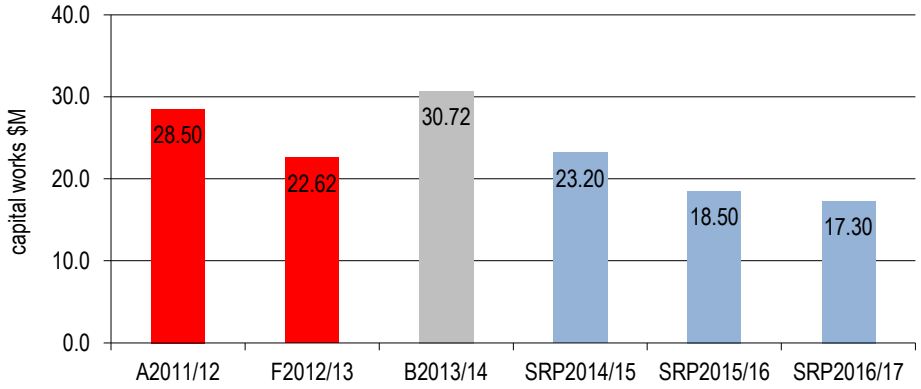

The net cost of services delivered to the community for the 2013/14 year is expected to be $42.00 million which is an increase of $2.60 million over 2012/13. A key influencing factor in the development of the 2013/14 budget has been the recently released results of the community satisfaction survey conducted by Council. The survey results show that while there is a relatively high level of satisfaction with most services provided by Council, there are some areas of concern where there is a clear message that ratepayers want improved service levels. For the 2013/14 year, service levels have been maintained and a number of new activities and initiatives proposed. (The forecast net cost for the 2012/13 year is $39.40 million).

## 4. Cash and investments



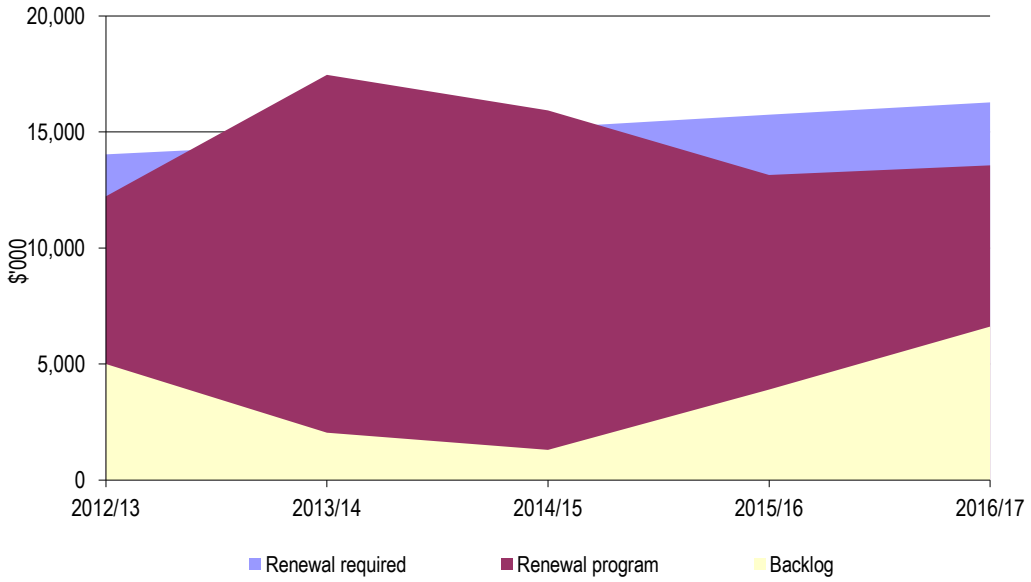

Cash and investments are expected to decrease by $11.27 million during the year to $12.21 million as at 30 June 2014. This is due mainly to the carried forward component of the 2012/13 capital works program and a number of major building projects. The reduction in cash and investments is in line with Council's strategic resource plan. (Cash and investments are forecast to be $23.48 million as at 30 June 2013).

## 5. Capital works



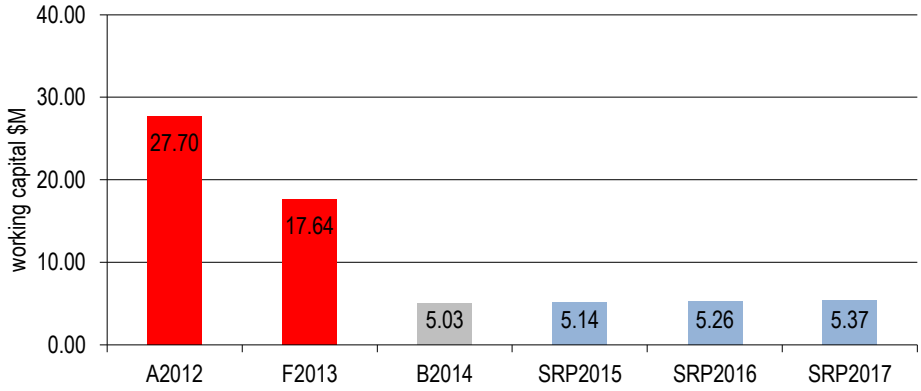

The capital works program for the 2013/14 year is expected to be $30.72 million of which $7.13 million relates to projects which will be carried forward from the 2011/12 year. The carried forward component is fully funded from the 2012/13 budget. Of the $30.72 million of capital funding required, $8.87 million will come from Council operations, $7.96 million from external grants and contributions and the balance (including the carried forward component) of $13.89 million from cash and investments. The capital expenditure program has been set and prioritised based on a rigorous process of consultation that has enabled Council to assess needs and develop sound business cases for each project. This year's program includes a number of major building projects including the construction of a velodrome and lawn bowls centre. (Capital works is forecast to be $22.62 million for the 2012/13 year).

The graph below sets out the required and actual asset renewal over the life of the current Strategic Resource Plan and the renewal backlog.



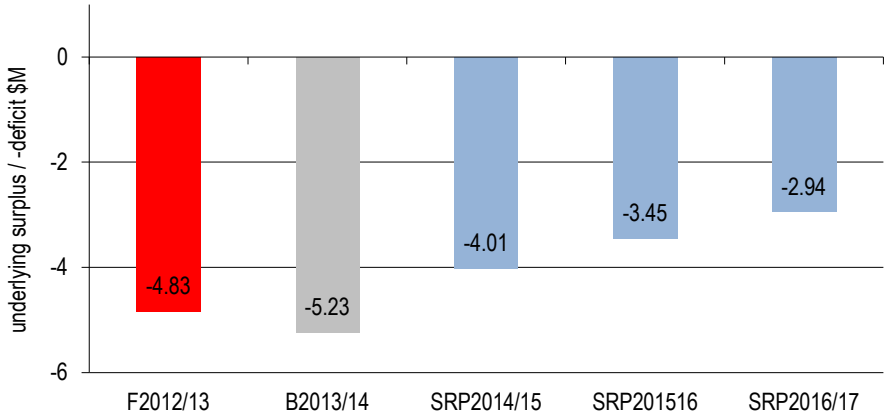

The asset renewal program has been increased to $17.50 million in the 2013/14 year which will lead to a reduction in the backlog to $2.04 million. However over the rest of the four year period, it is expected to increase as funds are directed toward new asset projects with the backlog expected to climb to $6.61 million at the end of the 2016/17 year.

## 6. Financial position



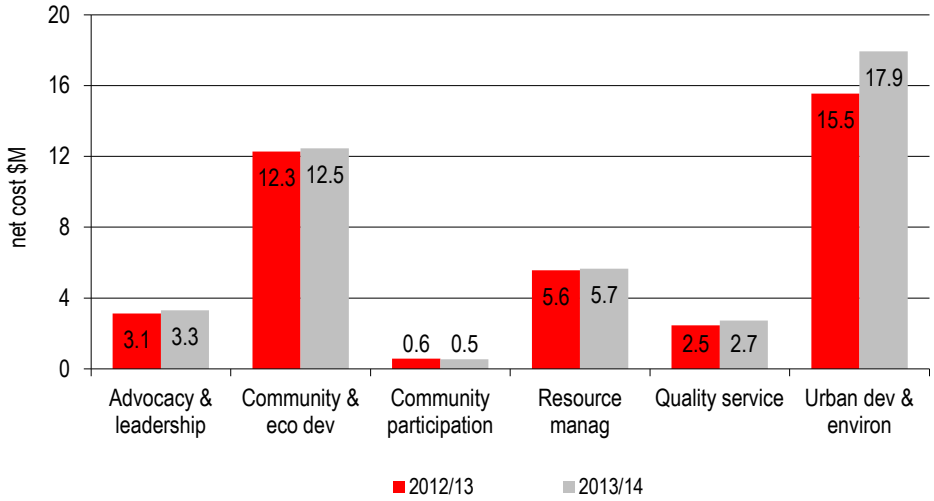

The financial position is expected to improve with net assets (net worth) to increase by $1.05 million to $514.83 million although net current assets (working capital) will reduce by $12.61 million to $5.03 million as at 30 June 2014. This is mainly due to the use of cash reserves to fund the capital works program. (Total equity is forecast to be $513.79 million as at 30 June 2013).

## 7. Financial sustainability



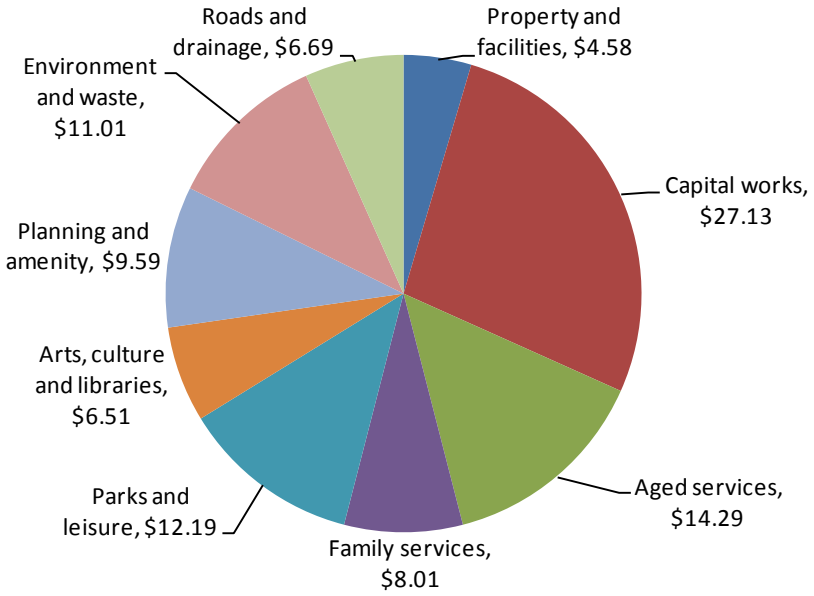

A high level Strategic Resource Plan for the years 2013/14 to 2016/17 has been developed to assist Council in adopting a budget within a longer term prudent financial framework. The key objective of the Plan is financial sustainability in the medium to long term, while still achieving the Council's strategic objectives as specified in the Council Plan. While the Plan projects that Council's operating result will almost reach break-even by the 2016/17 year, the underlying result which is a measure of financial sustainability shows a decreasing deficit over the four year period. This difference is due to substantial capital revenue being received during this period to fund a number of major capital works projects.

## 8. Strategic objectives




The Annual Budget includes a range of activities and initiatives to be funded that will contribute to achieving the strategic objectives specified in the Council Plan. The above graph shows the level of funding allocated in the budget to achieve the strategic objectives as set out in the Council Plan for the 2013/14 year.

## 9. Council expenditure allocations




The above chart provides an indication of how Council allocates its expenditure across the main services that it delivers. It shows how much is allocated to each service area for every $100 that Council spends.

This budget has been developed through a rigorous process of consultation and review and management endorses it as financially responsible. More detailed budget information is available throughout this document.

**Chris Cross**
**Chief Executive Officer**

## Commentary – Chief Executive Officer's summary

**Purpose of Chief Executive Officer's summary**

1. The purpose of the Chief Executive Officer's summary section is to provide the reader with a high level "snapshot" of the key financial outcomes of the budget. A more detailed line item analysis is provided later in the report. The summary should give consideration to the following areas:
   (a) Rating increases / decreases
   (b) Operating result
   (c) Service delivery and costs
   (d) Cash and investments
   (e) Capital works
   (f) Financial position
   (g) Financial sustainability
   (h) Strategic objectives.

## Budget processes[1-6]

This section lists the budget processes to be undertaken in order to adopt the Budget in accordance with the Local Government Act 1989 (the Act) and Local Government (Finance and Reporting) Regulations 2004 (the Regulations).

Under the Act, Council is required to prepare and adopt an annual budget for each financial year. The budget is required to include certain information about the rates and charges that Council intends to levy as well as a range of other information required by the Regulations which support the Act.

The 2013/14 budget, which is included in this report, is for the year 1 July 2013 to 30 June 2014 and is prepared in accordance with the Act and Regulations. The budget includes standard statements being a budgeted Income Statement, Balance Sheet, Cash Flows and Capital Works. These statements have been prepared for the year ended 30 June 2014 in accordance with the Act and Regulations, and consistent with the annual financial statements which are prepared in accordance with Accounting Standards. The budget also includes detailed information about the rates and charges to be levied, the capital works program to be undertaken and other financial information, which Council requires in order to make an informed decision about the adoption of the budget.

In advance of preparing the budget, Officers firstly review and update Council's long term financial projections. The preparation of the budget, within this longer term context, begins with Officers preparing the operating and capital components of the annual budget during February and March. A draft consolidated budget is then prepared and various iterations are considered by Council at informal briefings during April. A 'proposed' budget is prepared in accordance with the Act and submitted to Council in May for approval 'in principle'. Council is then required to give 'public notice' that it intends to 'adopt' the budget. It must give 28 days notice of its intention to adopt the proposed budget and make the budget available for inspection at its offices and on its web site. A person has a right to make a submission on any proposal contained in the budget and any submission must be considered before adoption of the budget by Council.

To assist interested persons to understand the budget and make a submission if they wish, Council officers undertake a community engagement process including public information sessions, focus groups and other techniques. The final step is for Council to adopt the budget after receiving and considering any submissions from interested parties. The budget is required to be adopted and a copy submitted to the Minister by 31 August each year. The key dates for the budget process are summarised below:

| Budget process | Timing |
|---|---|
| 1. Officers update Council's long term financial projections | Dec/Jan |
| 2. Officers prepare operating and capital budgets | Jan/Mar |
| 3. Councillors consider draft budgets at informal briefings | Mar/Apr |
| 4. Proposed budget submitted to Council for approval | May |
| 5. Public notice advising intention to adopt budget | May |
| 6. Budget available for public inspection and comment | May |
| 7. Public submission process undertaken | May/Jun |
| 8. Submissions period closes (28 days) | Jun |
| 9. Submissions considered by Council/Committee | Jun |
| 10. Budget and submissions presented to Council for adoption | Jun |
| 11. Copy of adopted budget submitted to the Minister | Aug |
| 12. Revised budget where a material change has arisen | Sep-Jun |

## Commentary – Budget processes

**Purpose of budget processes**

1. This section lists the budget and related processes to be undertaken in order to adopt the Budget in accordance with the Act and Regulations. The relevant legislative references are detailed below.

| Action | | Proposed Timing | Notes | Act & Regulations |
|---|---|---|---|---|
| 1. | Council Plan | Feb | Preparation / review of 4 year Council Plan.<br>The Act requires a Council to prepare and approve a Council Plan within 6 months after a general election or by the next 30 June, whichever is later. At least once in each financial year, a Council must consider whether the Council Plan requires any adjustment in respect of its remaining period. Best practice would see this review taking place in time to guide the budget preparation. | Act Sec 125 |
| 2. | Strategic Resource Plan | March | Preparation / review of 4 year Strategic Resource Plan (SRP). The SRP forms part of the Council Plan. It must be reviewed during the preparation of the Council Plan and adopted by 30 June each year. The SRP includes standard statements, prepared based on a Council's long term financial plan, and statements describing the required non-financial resources. | Act Sec 126 |
| 3. | Preparation of Budget | Feb - April | Development of Operating and Capital budgets reflected in financial statements. | Act Sec 127 |
| 4.<br>4.1<br>4.2<br>4.3<br>4.4<br>4.5<br>4.6<br>4.7<br>4.8<br>4.9<br>4.10<br>4.11<br>4.12<br>4.13<br>4.14<br>4.15<br>4.16 | Budget submitted to Council for approval including:<br>Standard statements (income statement, balance sheet, cash flows and capital works)<br>Activities and initiatives to be funded in the budget<br>Statement as to how the activities and initiatives will contribute to achieving the strategic objectives specified in the Council Plan<br>Key strategic activities to be undertaken and performance targets and measures for each<br>Details of the rates to be declared<br>Total proposed borrowings<br>Debt redemption<br>Rate in the dollar<br>Estimate of rates by type<br>Total amount to be raised by rates<br>% change to rate in dollar<br>Number of assessments by type of rate and change<br>Total number of assessments<br>Basis of valuation used<br>Estimated total value of land by type and change<br>Municipal charge | May | Includes establishment of a submission panel and the date and time the panel meet to consider submissions received. Items 4.1 – 4.20 are required to comply with the Regulations. Refer also Appendix B commentary. | Act Secs 127, 158 & 161-162. Regulation Part 3 (Regs 5(1) & 8(a) – (c) ) |

| | | | | |
|---|---|---|---|---|
| 4.17<br>4.18<br>4.19<br>4.20 | Unit amount to be levied as service rate or charge<br>Amount to be raised by service rate or charge and change<br>Total amount to be raised from rates and charges<br>Any significant changes that may affect the amounts to be raised | | | |
| 5.<br>5.1<br>5.2<br>5.3<br>5.4<br>5.5<br>5.6<br>5.7<br>5.8<br>5.9 | Public Notice advising intention to adopt budget including:<br>Council meeting date to adopt budget<br>Amount borrowed as at 30 June of the previous financial year<br>Total amount of proposed borrowing (excl. refinancing)<br>Total amount of borrowings projected to be redeemed<br>Cost of servicing the borrowings<br>Rate in the dollar for each type of rate<br>Municipal charge<br>Unit amount for each type of charge<br>A summary of the reasons for its preparation (revised budgets only) | May | Public Notice is required as soon as practicable after budget has been prepared. The Public Notice is required to include a number of matters as outlined in the Regulations. Items 5.1-5.9 are required to comply with the Regulations. | Act Sec 129, Regulations Part 3 (Reg 9 (a) –(j) ) |
| 6. | Budget available for public inspection and comment | May | The Budget must be available for public inspection for at least 28 days after publication of the public notice. Public submissions can be received during this time. | Act Sec 222, 223 |
| 7. | Submissions period closes and consideration by Council/Committee | June | Council must consider submissions received from the public before adopting the budget. This is generally done by Council or a committee of Council. Persons making a submission can request to be heard. | Act Sec 223 |
| 8. | Budget and submissions presented to Council for adoption | June | Adoption can be as late as August but it is recommended to adopt in June to enable programs and capital works to commence in the new financial year. | Act Sec 130 |
| 9. | Copy of the adopted budget submitted to the Minister | August | A copy of the budget must be submitted to the Minister by 31 August. | Act Sec 130 |
| 10. | Prepare a revised budget where a circumstance has arisen resulting in a material change to the budget which affects the financial operations and position of the Council | September - June | In the case of a revised budget the regulations require information to be included listed in Regulation 8 (c) only as applicable to any additional rates and charges to be levied.<br><br>A summary of the reasons for the preparation of the revised budget is required to be included on the Public Notice. | Act Secs 128, 129 & 130<br>Regulation Part 3 (Regs 8(a), (b) &(d), Regs 9(a) – (j) |

**Community engagement**

2. To ensure that the community understands the implications of the proposed budget and is able to make an informed decision about its contents it is recommended that the Council undertake an engagement process. This could include public information sessions, focus groups, or other engagement techniques. It is considered inadequate to simply make the budget available at the Council's premises or on its web page.

**Timing of budget processes**

3. The proposed timing of the budget processes shown in this section are considered to be best practice. Budget adoption in accordance with the Act and Regulations can be as late as 31 August. However, it is considered that adopting the budget prior to the commencement of the year to which it relates ensures that the Council is operating within proper budget constraints. Also, in view of the extension of the section 223 submission period to 28 days, it may be necessary to schedule a Special Council Meeting to consider the budget as the usual meeting cycle may not accommodate the submission period.

**Revised budget**

4. Councils are required under section 128 of the Act to prepare a revised budget if circumstances arise which cause a material change in the budget and which affects the financial operations and position of the Council. A revised budget will be required, for example, where a Council wishes to borrow money but has not included the proposed borrowings within the original budget. Normal variances from original budget expectations will not trigger the need for a revised budget, but can be managed internally through a process of re-forecasting. Councils remain accountable for reporting against their original budgets within the Standard Statements as part of the Annual Report.

**Conflict of interest**

5. The Local Government Act contains requirements governing conflicts of interest. There are a number of factors which give rise to Councillors having either a direct or indirect conflict of interest. As one example, a Councillor has a conflict where there is a reasonable likelihood that the residential amenity of a Councillor or a councillor's relative will be directly affected if a matter is decided in a particular way. Councillors with a conflict of interest are required to declare the conflict and absent themselves from any discussion on the matter in question. This requirement applies to both Council meetings and Councillor briefings, which are an Assembly of Councillors under the Act. Local Government Victoria has issued a detailed guide accessible at www.localgovernment.vic.gov.au that provides details on the conflict of interest provisions of the Act.

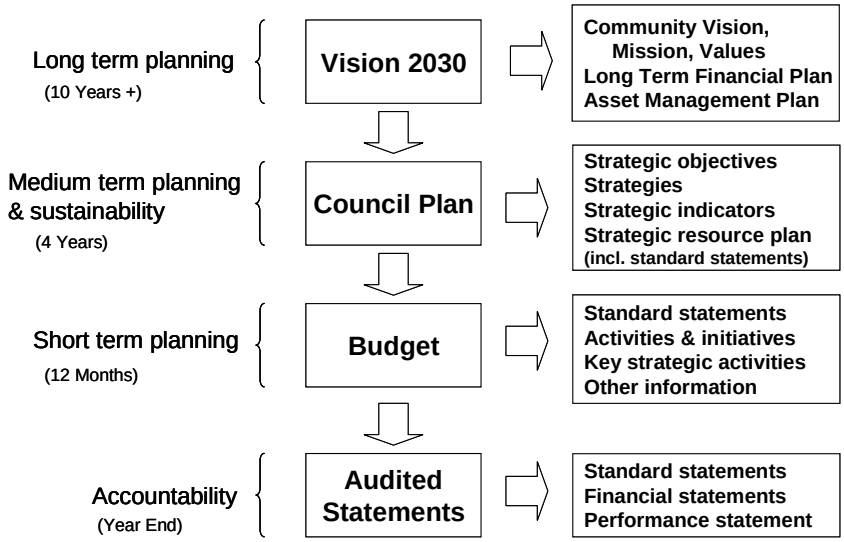
6. The conflict of interest changes may impact on the way in which the budget is discussed and adopted by Council. For example, there may be a number of Councillors with conflicts arising from individual capital works projects that affect their residential amenity. Council officers will need to consider how the draft budget will be discussed with Councillors and presented for adoption to address potential conflicts of interest. Council officers should seek advice to ensure an appropriate approach is taken for their own circumstances to ensure compliance with the relevant legislative requirements.

# 1. Linkage to the Council Plan[1]

This section describes how the Annual Budget links to the achievement of the Council Plan within an overall planning framework. This framework guides the Council in identifying community needs and aspirations over the long term (Vision 2030), medium term (Council Plan) and short term (Annual Budget) and then holding itself accountable (Audited Statements).

## 1.1 Strategic planning framework[2]

The Strategic Resource Plan, included in the Council Plan, summarises the financial and non-financial impacts of the objectives and strategies and determines the sustainability of these objectives and strategies. The Annual Budget is then framed within the Strategic Resource Plan, taking into account the activities and initiatives included in the Annual Budget which contribute to achieving the strategic objectives specified in the Council Plan. The diagram below depicts the strategic planning framework of Council.




The timing of each component of the planning framework is critical to the successful achievement of the planned outcomes. The Council Plan, including the Strategic Resource Plan, is required to be completed by 30 June following a general election and is reviewed each year by February to ensure that there is sufficient time for officers to develop their Activities and Initiatives and Key Strategic Activities in draft form prior to the commencement of the Annual Budget process in March. It also allows time for targets to be established during the Strategic Resource Planning process to guide the preparation of the Annual Budget.

## 1.2 Our purpose[3]

### Our vision 'one community – proudly diverse'

Victorian City Council seeks to create an environmentally sustainable and liveable city, where people can shop, work and socialise locally; a city where a car and high income are not necessary for a rich and rewarding quality of life; and a city that will continue to provide a range of opportunities and choices for a diverse and prosperous community.

### Our mission

Victorian City Council will engage in partnership with the Victorian community to lead and develop:

- a city with sustainable growth
- a city that cares for and respects all of its citizens
- a city that welcomes people from across the globe
- a city that celebrates its social, cultural and ethnic heritage
- a city that promotes wellbeing.

As an innovative and accountable organisation, Victorian City Council will promote vibrant democracy and provide high-quality services.

**Our values**

Victorian City Council has a clear strength in the bond and affinity between its Councillors, the community and staff. Staff supports the community leadership and governance role of Councillors, and work together to achieve the commitments of the Council Plan. Having all Victorian City Council staff practise the following organisational values enhance the quality of this partnership:

- **Service** - Our citizens, community and service users are the focus of all our actions
- **Accountability** - We are responsible for our actions, which are open to review
- **Innovation** - We encourage and seek new ideas in finding solutions
- **Teamwork** - We share our skills, knowledge and experience as part of a team and work together towards achieving Council's goals
- **Recognition** - We promote the achievements and efforts of others
- **Safety** - We look after our environment and the welfare of others
- **Integrity** - We are open and honest and work to the best of our ability
- **Respect** - We acknowledge the opinions of others and their rights and differences.

## 1.3 Strategic objectives[4]

Council delivers activities and initiatives under 34 major service categories. Each contributes to the achievement of one of the six Strategic Objectives as set out in the Council Plan for the years 2013-17. The following table lists the six Strategic Objectives as described in the Council Plan.

| Strategic Objective | Description |
|---|---|
| 1. Advocacy and leadership | Maintain an understanding of issues of local importance and provide leadership in tackling them. Where appropriate, advocate on behalf of our community and ensure that our community is represented in debates which affect us. |
| 2. Community and economic development | Work to improve the quality of life for the local community. Ensure that social and cultural services are tailored to meet specific local needs and work to stimulate the city's economic activity. |
| 3. Community participation | Communicate clearly with the community and consult in a meaningful and appropriate way. Increasingly encourage residents and other stakeholders to participate in Council decision making. |
| 4. Resource management | Take seriously its responsibility as the custodian of community resources. Commit to achieving maximum benefit for the community from all our resources while taking care of our natural environment. |
| 5. Quality service | Deliver high quality value for money services in areas that are important to the community and involve the community in determining and evaluating their performance on an ongoing basis. |
| 6. Urban development and environment | Work to improve the quality of our natural and urban environment, and stimulate development activity within a framework that protects and enhances the natural environment, heritage assets and residential amenity. |

## Commentary – Linkage to the Council Plan

**Purpose of linkage to the Council Plan**

1. The purpose of linkage to the Council Plan is to show how the budget contributes to the achievement of the Council Plan. This section should include as a minimum, the following:
   (a) Strategic planning framework
   (b) Our purpose
   (c) Strategic objectives.

**Strategic planning framework**

2. This section gives the reader a wider picture of how the budget fits into the strategic planning process. As a significant number of readers may not be trained in financial management and corporate planning techniques, the planning framework is best illustrated diagrammatically with a brief explanation. The diagram should highlight how Council's overall longer term objectives feed into the Council Plan, link to the Annual Budget and show how they are expressed numerically in the Standard Statements included in the Strategic Resource Plan and Budget. The Council Plan, Strategic Resource Plan, Annual Budget and Audited Statements are statutory requirements. The preparation of a longer term planning / vision document is not required by legislation but is common within council planning frameworks in Victoria.

**Our purpose**

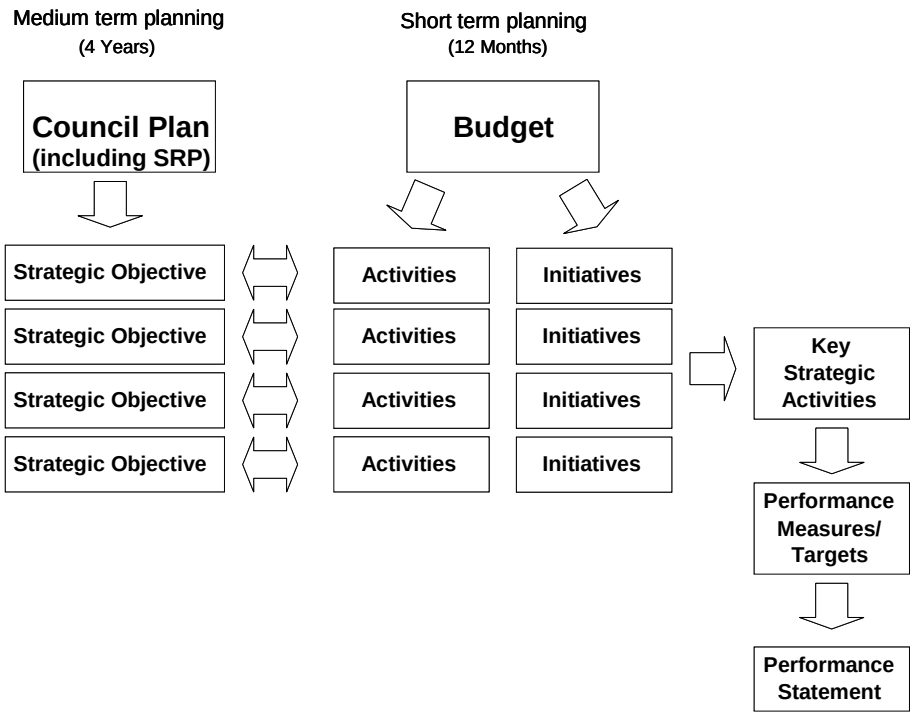
3. This section describes the vision, mission and values of the Council as set out in its Council Plan.

**Strategic objectives**

4. This section provides an overview of the strategic objectives, which when achieved, will deliver the outcome described in the vision and mission. A description is provided to allow the reader to understand each objective.

## 2. Activities, initiatives and key strategic activities[1]

This section provides a description of the activities and initiatives to be funded in the Budget for the 2013/14 year and how these will contribute to achieving the strategic objectives specified in the Council Plan as set out in Section 1. It also includes a number of key strategic activities and performance targets and measures in relation to these. The Strategic Resource Plan (SRP) is part of and prepared in conjunction with the Council Plan. The relationship between these components of the Budget and the Council Plan is shown below.




### 2.1 Strategic Objective 1: Advocacy and leadership[2-10]

To achieve our objective of Advocacy and Leadership, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

**Activities**

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Councillors, Chief Executive and Executive Team | This area includes the Mayor, Councillors, Chief Executive Officer and Executive Management Team and associated support which cannot be easily attributed to the direct service provision areas. | 2,006<br>(0)<br>**2,006** |
| Social policy[1)-3)] | This service has the responsibility to frame and respond to the challenges of social inclusion that present to Council. It is the responsibility of this service to ensure that issues that arise and situations and trends that develop of a social policy nature are responded to appropriately by Council. | 1,546<br>(250)<br>**1,296** |

**Initiatives**

1) The recommendations from the Poverty Inquiry will be implemented with a responsible gambling charter to be developed with gambling agencies in Council to ensure the promotion of responsible gambling among Council residents. Also, further dialogue will occur with the State Government to address adverse impacts of gambling in the municipality ($Nil net cost).
2) Council's Friendship City Relationship with East Timor will be realised through the commencement of several projects to assist the rebuilding of community and basic infrastructure in East Timor ($Nil net cost).
3) Additional funding to the Community Grants program which is the first additional funding for some years for this significant community program ($0.44 million net cost).

**Key strategic activities**

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Implement outcomes of the Poverty Inquiry recommendations through development of a responsible gambling charter for the City. | Time: Adopt the responsible gaming charter within the required timeframe. | 31 Dec 2013 |
| | Quantity: Number of registered gambling agencies who are signatories to the charter. | ≥ 75% |
| | Quality: Reduction in spending at gaming venues in the City. | >10% |

## 2.2 Strategic Objective 2: Community and economic development[2-10]

To achieve our objective of Community and Economic Development, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

**Activities**

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Aged and Disability Services[4)] | This service provides a range of services for the aged and disabled including home delivered meals, personal care, transport, dementia care, home maintenance, housing support and senior citizen clubs. | 10,041<br>(6,174)<br>**3,867** |
| Family Services[5),6)] | This service provides family oriented support services including pre-schools, a toy library, maternal and child health, pre-school dental, counselling and support, youth services, immunisation, family day care, holiday programs and health and safety. | 5,632<br>(2,476)<br>**3,156** |
| Library Services[7)] | This service provides public library services at three locations and provides a customer focused service that caters for the cultural, educational and recreational needs of residents and provides a focal point for the community where they can meet, relax and enjoy the facilities and services offered. | 3,083<br>(759)<br>**2,324** |
| Victorian Park | This service provides public open space, an 18 hole public golf course, pristine environmental areas, a visitor's centre and café and an accredited Tourist Information Centre. Victorian Park is also home to a Settlement, a community tourist attraction providing a host of activities including an Urban Farm, Heritage Village and the Wildlife Reserve. | 1,758<br>(1,026)<br>**732** |

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Leisure Outsourcing | This service includes a 9 hole public golf course which offers a range of golfing programs and events including tournaments. It provides a range of recreational facilities including indoor and outdoor swimming pools, a fully equipped Gymnasium, aqua aerobics, aerobics, pump, circuit, yoga and gymnastics classes, public tennis courts and childcare facilities. It also provides 4 indoor and 3 outdoor multipurpose courts and provides an extensive range of recreational programs and opportunities accessible to individuals of all ages, sexes and abilities. | 212<br>(394)<br>**(182)** |
| Arts and Entertainment Centre | This service provides theatre services including technical staging advice and performance operations, facilities for presentations including events for children, families and older people and exhibitions of works by local artists, function and catering services including seminars, meetings, conferences and expos and a kiosk. This service is also responsible for management of the public facilities at the Council Town Hall and the delivery of the annual Festival. | 791<br>(347)<br>**444** |
| Victorian Leisure Centre | This service combines a wide range of programs and services, which provide the opportunity for the community to participate in a variety of cultural, health, education, and leisure activities, which contribute to the general well being of the community. | 1,363<br>(979)<br>**384** |
| Arts and Cultural Planning | This service provides a varied ongoing program of arts and cultural events and activities, plans and develops arts and cultural facilities and infrastructure and develops policies and strategies to facilitate art practice. | 404<br>(55)<br>**349** |
| Leisure Services | This service is responsible for the management and use of sporting grounds and pavilions and community centres with meeting, function and activity space. The service provides advice to Council on local leisure needs and assists community groups with funding applications, event management and promotion and issues relating to license agreements with Council. | 712<br>(256)<br>**456** |
| Victorian Homestead[8)] | This service provides the community with a flexible recreational and cultural space at Victorian Homestead. The service includes exhibition spaces which host a year round exhibition program that includes both historic and contemporary art and craft. | 298<br>(50)<br>**248** |
| Economic Development[9)] | This service assists the organisation to facilitate an environment that is conducive to a sustainable and growing local business sector and provides opportunities for local residents to improve their skill levels and access employment. | 785<br>(106)<br>**679** |

**Initiatives**

4) Council is the lead agency on aged partnerships project and although grants were received in 2012/13, the majority of programs will be implemented during the next financial year ($0.90 million net cost).
5) Increase in service provision from Youth Resource Centre at Victorian Civic Centre. Support for youth consortium work, and for a young mother's group run jointly with maternal and child health nurse and youth worker. Council's music centre to offer employment opportunities to eight young people in music related disciplines ($0.06 million net cost).

6) Increase in hours of pre-school field officer who currently is funded for 28 hours per week, but provides service to over 100 families and 30 pre-schools in Council ($0.02 million net cost).
7) New programs will be developed to reflect the cultural diversity of Council including a community languages program through the Library Services, a volunteers' support network for leisure organisation volunteers and opportunities for new residents to participate in culturally relevant activities ($Nil net cost).
8) The Victorian Homestead-Centre for Decorative Arts on Mt Victorian Estate will open during the year to host major and decorative art exhibits ($0.28 million net cost).
9) Resourcing of the Employment Strategy will see the engagement of a part time employment co-coordinator to ensure that Council gains its fair share of employment programs and is able to respond to employment and training issues in the municipality. Resources also include provision for Council's participation in the State Government's Community Jobs Program and implementing recommendations arising from the Employment Strategy ($0.18 million net cost).

**Key strategic activities**

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Implement the community languages program to improve the way Council meets the cultural diversity needs of the community | Time: Implement the community languages program through the Library Services within the required timeframe. | 31 Oct 2013 |
| | Cost: Deliver the community languages program within the value of the government grant. | $25,000 |
| | Quantity: Number of community members participating in the community languages program within six months. | ≥ 35 |
| | Quality: Level of satisfaction of participants in the languages program. | >75% |

## 2.3 Strategic Objective 3: Community participation[2-10]

To achieve our objective of Community Participation, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

**Activities**

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Communications[10)] | This service is responsible for the management and provision of advice on external communication, in consultation with relevant stakeholders, on behalf of Council. | 537<br>(0)<br>**537** |

**Initiatives**

10) A major step forward in the improvement of Council's Multilingual Communication Service to meet the needs of a non-English speaking background community including a major redevelopment of Council's multilingual website and other communication services ($0.05 million net cost).

**Key strategic activities**

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Redevelop Council's multilingual website and other communication services in order to meet the needs of the non-English speaking community | Time: Website implemented and 'live'. | 31 Mar 2014 |
| | Quantity: Increase in the number of multilingual website hits compared with 2012/13 levels. | ≥ 50% |
| | Quality: Percentage of website users indicating the site provides a helpful service through a site exit survey. | >75% |
| Develop a community engagement framework to increase community participation in decision making | Quantity: Number of participants in community forums. | >2000 |
| | Time: Framework developed within planned timeframe. | 30 Nov 2013 |
| | Quality: Percentage of community satisfaction with Council's decision making processes. | >75% |

## 2.4 Strategic Objective 4: Resource management[2-10]

To achieve our objective of Resource Management, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

**Activities**

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Financial Services[11)] | This service predominantly provides financial based services to both internal and external customers including the management of Council's finances, payment of salaries and wages to Council employees, procurement and contracting of services, raising and collection of rates and charges and valuation of properties throughout the municipality. | 2,003<br>(345)<br>**1,658** |
| Information Services[12)] | This service provides, supports and maintains reliable and cost effective communications and computing systems, facilities and infrastructure to Council staff enabling them to deliver services in a smart, productive and efficient way. | 1,729<br>(0)<br>**1,729** |
| Organisation Development | This service provides Council with strategic and operational organisation development support. The service develops and implements strategies, policies and procedures through the provision of human resources and industrial relations services. The service also assists managers to determine and progress toward future structures, capability and cultures in their service units. | 806<br>(0)<br>**806** |
| Fleet Services | This service purchases and maintains Council vehicles, plant and equipment to meet functionality and safety needs and to maximise the performance and minimise operational cost of the fleet. In addition, the service provides baby capsule hire to residents. | 2,350<br>(3,621)<br>**(1,271)** |
| Infrastructure Planning | This service conducts capital works planning for Council's main civil infrastructure assets in an integrated and prioritised manner in order to optimise their strategic value and service potential. These include roads, laneways, car parks, foot/bike paths, drains and bridges. | 268<br>(0)<br>**268** |

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Facilities Maintenance | This service prepares long term maintenance management programs for Council's property assets in an integrated and prioritised manner in order to optimise their strategic value and service potential. These include municipal buildings, pavilions and other community buildings. | 2,233<br>(280)<br>**1,953** |
| Engineering Design and Management | This service undertakes design, tendering, contract management and supervision of various works within Council's capital works program. The service also approves and supervises private development activities such as subdivisions and infrastructure associated with unit developments. | 513<br>(0)<br>**513** |

**Initiatives**

11) Alternative payment options will be phased in during the year which will allow the following accounts to be paid at Australia Post via internet, phone and over-the-counter using cash, cheque, credit card and debit card – rates, homecare, family day care, meals, home maintenance, holiday program, animal registrations, parking fines and sundry debtors ($Nil net cost).
12) Significant advances will be made in the further development of the Geographic Information System (GIS). Additionally, public access to the GIS will become operational during this calendar year, as will the commissioning of the Community (Internet) Portal and community email facilities. These initiatives will place Council firmly at the forefront of local governments in Victoria and Australia for electronic public access to service information and facilities ($Nil net cost).

**Key strategic activities**

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Complete the capital works program to ensure assets are provided and maintained at an appropriate level | Quantity: The proportion of budgeted Capital Works projects completed at the conclusion of the financial year. | 90% |
| | Cost: The proportion of capital works projects completed within the allocated budget. | 90% |
| | Quality: The number of attendances at the new Victorian City Council Velodrome / State Bowls Centre. | >5,000 |
| Develop and implement a new workforce plan in order to attract and retain quality staff | Quantity: Proportion of total permanent staff continuing employment with Council each year. | ≥ 85% |
| | Quality: Proportion of staff who are overall satisfied or very satisfied with working at the city. | ≥ 85% |
| | Time: Approval of the new workforce plan within the required timeframe. | 31 Dec 2013 |

## 2.5 Strategic Objective 5: Quality service[2-10]

To achieve our objective of Quality Service, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

### Activities

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Customer and Civic Services[13)] | This service provides a range of governance, statutory and corporate support services and acts as the main customer interface with the community. Services include the coordination of council and committee meetings, records and information management and office support services at the Civic Centre. Two municipal halls are available for hire and the customer support service is delivered from four located customer service centres. | 2,369<br>(0)<br>**2,369** |
| Performance Support[14)] | This service provides organisational policy, systems and support in the areas of continuous improvement, corporate planning, performance measurement and reporting. | 351<br>(0)<br>**351** |

### Initiatives

13) Customer service facilities will be provided at the new Victorian Community Centre following its completion ($0.11 million net cost).
14) Fifteen of Council services will be going through a review under Council's Continuous Improvement Program, which will include consultation with stakeholders and the development of service standards and commitments for these services ($Nil net cost).

### Key strategic activities

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Implement the Continuous Improvement program in order to ensure Council is delivering effective and efficient services to the community | Quantity: The number of Council services that have completed the scheduled continuous improvement service reviews. | 15 |
| | Time: Development of agreed service standards for each service that has been reviewed. | 30 June 2014 |
| Implement the Customer Service Excellence Program to enhance frontline service delivery to community members | Time: Service Excellence program completed within the required timeframes. | 31 Mar 2014 |
| | Quality: Average time taken (in seconds) to answer telephone call enquiries. | ≤ 20 |
| | Quality: Proportion of telephone calls with enquiries resolved at first point of contact. | >70% |

## 2.6 Strategic Objective 6: Urban development and environment[2-10]

To achieve our objective of Urban Development and Environment, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services. The activities and initiatives for each service category and key strategic activities is described below.

**Activities**

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Open Space Planning | This service prepares policies and strategies relating to open space and urban design issues and prepares and implements an annual capital works program. The service also provides landscape and urban design advice and is actively involved in setting service standards for parks maintenance activities. | 554<br>(0)<br>**554** |
| Urban Development[15),16)] | This service processes all planning applications, provides advice and makes decisions about development proposals which require a planning permit, as well as representing Council at the Victorian Civil and Administrative Tribunal where necessary. It monitors the Council's Planning Scheme as well as preparing major policy documents shaping the future of the City. It also prepares and processes amendments to the Council Planning Scheme and carries out research on demographic, urban development, economic and social issues affecting Council. | 2,358<br>(697)<br>**1,661** |
| Parks and Gardens[17)] | This service is divided into four main operational units. Arboriculture provides tree pruning, planting, removal, planning and street tree strategies. Bushland provides the management of conservation and parkland areas, creeks and other areas of environmental significance. Parks Management provides management and implementation of open space strategies and maintenance programs. Infrastructure Maintenance provides management of all parks and gardens and infrastructure maintenance. | 3,964<br>(0)<br>**3,964** |
| Traffic and Transportation Services | This service provides strategic planning, policy development and day to day management of traffic and transport related issues in Council. The unit also implements a Green Travel Plan for Council staff, the TravelSMART "Better Ways to Work" program, Local Area Traffic Management schemes and assists with implementation of the Road Safety Strategy. | 511<br>(0)<br>**511** |
| Property Management | This service facilitates the smooth flow of traffic and parking throughout the municipality through the provision of safe, orderly and equitable parking enforcement and education. In addition the service is responsible for the maintenance, management and strategic planning for Council's building, land and property leases and licenses. | 985<br>(0)<br>**985** |
| Environmental Services[18)] | This service provides kerbside rubbish collections of garbage, hard waste and green waste from all households and some commercial properties in Council. It also provides street cleaning, leaf collection, weed removal, drainage pit cleaning and street litter bins throughout Council. | 6,596<br>(212)<br>**6,384** |

| Activity | Description | Expenditure<br>(Revenue)<br>**Net Cost**<br>**$'000** |
|---|---|---|
| Roads and Resource Recovery[19)] | This service provides public tipping to the Council and wider community and conducts ongoing maintenance of the Council's 600km of roads, 2000km of drains and 1.6 million square metres of footpath. | 3,406<br>(1,380)<br>**2,026** |
| Environmental Planning[20)] | This service develops environmental policy, coordinates and implements environmental projects and works with other services to improve Council's environmental performance. Reducing greenhouse gas emissions within Council operations and the community are a key priority through Council's ongoing involvement in the Cities for Climate Protection Plus program. | 396<br>(36)<br>**360** |
| Amenity[21)] | This service provides staff at school crossings throughout the municipality to ensure that all pedestrians, but mainly school aged children, are able to cross the road safely. It maintains and improves the health and safety of people, animals and the environment in Council by providing services including a cat trapping program, a dog and cat collection service, a lost and found notification service, a pound service, a registration and administration service, an afterhours service and an emergency service. It also provides education, regulation and enforcement of the General Local Law and relevant State legislation. | 1,425<br>(652)<br>**773** |
| Building Services[22)] | This service provides statutory building services to the Council community including processing of building permits, emergency management responsibilities, fire safety inspections, audits of swimming pool barriers and investigations of complaints and illegal works. | 624<br>(340)<br>**284** |
| Environmental Health | This service protects the community's health and well-being by coordinating food safety support programs, Tobacco Act activities and smoke free dining and gaming venue issues. The service also works to rectify any public health concerns relating to unreasonable noise emissions, housing standards and pest controls. | 746<br>(314)<br>**432** |

**Initiatives**

15) Two additional staff for Statutory Planning will enable Council to respond in a timelier manner to planning permit applications and also to an anticipated increased workload resulting from the newly adopted Victorian Government ResCode ($0.90 million net cost).
16) The major three year review of Council's Municipal Strategic Statement will commence in July 2013 with a completion date of December 2014. This will be the main focus of work being undertaken by the Strategic Planning Unit next year ($Nil net cost).
17) Arboriculture maintenance in Council equates to in excess of 80% of customer enquiries related to Council parks. As a result, an additional two employees will be recruited to continue with the delivery of this service. The contract allocation for Arboriculture Maintenance has also been increased to allow for additional line clearance within the municipality, in fill planting, stump removal and other tree maintenance costs ($0.15 million net cost).
18) In November 2012, Council resolved to deliver an in-house provided Street Cleansing service. This year's allocation includes the recent employment of an additional 14 staff, plant maintenance, materials and tipping fees, to deliver this new in house service ($1.40 million net cost).
19) As a result of delivering a Council provided street cleansing service, the increased labour allocation in the Roads and Recovery program includes an allowance for new full time Drainage Inspector ($0.04 million net cost).

20) An extra position is included to implement the storm water management program and coordinate the implementation of the Victorian Park Lake water quality and weir works, including further funding work and community liaison. The position will be a two year role in line with the lake timescale. An additional $0.05 million is also included in this year's budget for the environmental monitoring of the old landfill gas and leachate ($0.08 million net cost).
21) The number of Local Laws enquiries has increased, as has the number of abandoned vehicles, the number of permits and corresponding fines. The sharing of an administration officer with the School Crossing Unit has slightly reduced the expenditure in this area, which combined with the extra predicted income, enables one extra Local Law officer to be employed with no net budget implications (Nil net cost).
22) In recent years the Building Supervisor's role has increased in scope and volume. This includes mandatory tasks related to site dispensation and consents, smoke detector and swimming pool fencing. Additionally complaints and enforcement requests for work carried out by private building supervisors and general complaints related to urban consolidation have increased. This budget sees the development of two new positions, an additional building supervisor and a building enforcement officer to address these issues ($0.03 million net cost).

**Key strategic activities**

| Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| Implement an on-line application process and reduce the time taken to process planning applications | Quality: Proportion of planning applications processed within 60 days. | ≥ 90% |
| | Quantity: Number of planning applications received on-line | >500 |
| | Cost: Difference between the actual cost of the on-line system and budget | <$0 |
| Implement a targeted education program for residents to reduce the amount of waste diverted to landfill | Quality: Increase in the proportion of waste diverted away from landfill from 2012/13 levels. | ≥ 2% |
| | Quantity: Total attendance at the education programs undertaken | >1000 |
| Implement an energy efficiency program to reduce Council's carbon footprint | Quality: Reduction in $CO^2$ equivalent emissions from the council's operations from 2012/13 levels. | 5% |
| | Cost: Reduction in Council's energy costs from 2012/13 levels. | 3% |

## 2.7 Performance statement[6-10]

The Key Strategic Activities (KSA) detailed in the preceding pages, are summarised again in Appendix D. The KSA's, their performance measures, targets and results are audited at the end of the year and are included in the Performance Statement as required by section 132 of the Act. The Annual Report for 2013/14 will include the audited Performance Statement which is presented to the Minister for Local Government and the local community.

## 2.8 Reconciliation with budgeted operating result[11]

| | Net Cost (Revenue) $'000 | Expenditure $'000 | Revenue $'000 |
|---|---|---|---|
| Advocacy and leadership | 3,302 | 3,552 | 250 |
| Community and economic development | 12,455 | 25,079 | 12,624 |
| Community participation | 537 | 537 | 0 |
| Resource management | 5,656 | 9,902 | 4,246 |
| Quality service | 2,720 | 2,720 | 0 |
| Urban development and environment | 17,934 | 21,565 | 3,631 |
| **Total activities and initiatives** | **42,604** | **63,355** | **20,751** |
| Other non-attributable | 6,085 | | |
| **Deficit before funding sources** | **48,689** | | |
| **Funding sources** | | | |
| Rates and charges | 43,457 | | |
| Capital grants | 6,277 | | |
| **Total funding sources** | **49,734** | | |
| **Surplus for the year** | **1,045** | | |

### Commentary – Activities, initiatives and key strategic activities

**Purpose of activities and initiatives**

1. The purpose of the activities and initiatives section is to show the strategic objectives and key strategies included in the Council Plan and how these will be translated into activities and initiatives in the forthcoming year. This enables the reader to obtain an understanding as to how revenue and expenditure levels are set and then how rating levels are determined. As a minimum the activities, initiatives and key strategic activities section should include the following:
   (a) Activities and initiatives
   (b) Key strategic activities
   (c) Performance statement
   (d) Reconciliation with budgeted operating result.

**Activities and initiatives**

2. Section 127 of the Act requires the budget to contain a description of the activities and initiatives to be funded in the budget and a statement as to how the activities and initiatives will contribute to achieving the strategic objectives specified in the Council Plan. This section complies with this requirement and sets out what the Council believes are the key activities and initiatives that will be achieved in line with the Council Plan.

3. The activities of Council are those services which it undertakes to meet the needs of the community as reflected in the Council Plan. They tend to be ongoing in nature and have internal and external customers. It will be important that this section does not become a list of all services delivered by the Council, since this level of disclosure would not be useful to the readers. It is recommended that the activities be described at a level which gives the reader a good understanding (but not detailed) of the activities undertaken by Council. The activities should be grouped under the relevant strategic objective (Council Plan) to which it relates to show the linkage between the Budget Activities and the Council Plan.

4. In addition to the activities of Council, the new initiatives to be undertaken during the forthcoming year should also be described. Initiatives are tasks or actions that are once-off in nature and lead to improvements in services or service levels. The initiatives should be limited to only those key initiatives that will have a significant impact on the operations of the Council and will be of interest to the reader. They should be disclosed under the activity to which they relate including an estimate of the net cost (revenue).

5. The example disclosure provided in this model includes only those activities and initiatives that are of an operational nature. It may also be desirable to describe those pertaining to the capital activities of the Council. This can be disclosed by including separate columns for net cost (revenue) from operational activities and net cost (revenue) from capital activities as follows:

## Commentary – Activities, initiatives and key strategic activities

| Service Area | Description | Operating Net Cost (Revenue) $'000 | Capital Net Cost (Revenue) $'000 |
|---|---|---|---|
| **Resource Management** | | | |
| Engineering Design and Management | **Activities**<br>This service undertakes design, tendering, contract management and supervision of various works within Council's capital works program. The service also approves and supervises private development activities such as subdivisions and infrastructure associated with unit developments.<br><br>**Operating Initiatives**<br>Significant advances will be made in the further development of the Geographic Information System (GIS). Additionally, public access to the GIS will become operational during this calendar year, as will the commissioning of the Community (Internet) Portal and community email facilities. These initiatives will place Council firmly at the forefront of local governments in Victoria and Australia for electronic public access to service information and facilities. ($Nil net cost).<br><br>**Capital Initiatives**<br>Rehabilitation of footpaths for 25 streets across the municipality as part of the Council's Footpath Risk Management Program ($0.17 million net cost). | 513<br>(0)<br>**513** | 173<br>(0)<br>**173** |

**Key strategic activities**

6. Section 127 of the Act requires the budget to separately identify the Key Strategic Activities (KSAs) to be undertaken during the financial year and performance targets and measures in relation to each KSAs. Section 132 of the Act states that the KSAs and performance targets and measures specified under Section 127 of the Act must be included in the Performance Statement in the Annual Report and be subject to audit. Appendix D includes an example of the disclosure of KSAs for audit purposes.

7. The KSAs of Council are those significant activities and/or initiatives which will directly contribute to the achievement of the Council Plan during the current year. KSAs have a major focus for the budget year and lead to significant outcomes for the organisation and community. They should therefore be grouped under the Council Plan strategic objectives to show this relationship.

8. In selecting the KSAs, councils should consider the source of data for reporting back to the community against the targets. Council will require systems for data collection and reporting that are reliable and provide timely information in the format addressing the targets identified. Ideally, Council will not be dependent on third parties for the provision of data to enable preparation of the Performance Statement.

   As the KSAs will be reported to the community it will be essential that they are specific, measurable, achievable, realistic and have a timeframe. If these attributes cannot be achieved, then there will be a high risk that the Performance Statement will not be auditable and the Council may receive an audit qualification. As the KSAs will vary from year to year, so will the Performance Statement which will be subject to audit.

9. The Department of Planning and Community Development (DPCD) released the "Local Government Planning and Reporting Better Practice Guide" in early 2013 which can be found at www.dpcd.vic.gov.au/localgovernment. The guide outlines the key statutory requirements for planning and reporting and provides better practice guidance to assist councils to discharge their duties of accountability and transparency to their communities.

10. In April 2012 the Victorian Auditor-General's Office (VAGO) tabled an audit report in Parliament entitled "Performance Reporting by Local Government". This followed a 2008 audit into the same matter that found, for most councils, reporting had little relevance for ratepayers because it lacked information about the quality of council services, the outcomes being achieved, and how these related to councils' strategic objectives.

    The 2012 VAGO report concluded that, while some improvements were evident since the 2008 report, performance reporting remained inadequate and generally focused on inputs and operating activities rather than providing insight into the impact of services and the achievement of objectives.

    The main recommendations arising from the 2012 report were that :

    1. All councils should
    - review their strategic and service objectives to assure they are clearly expressed, measurable and aligned
    - critically review the performance information in their annual reports to assure it is relevant, balanced, appropriate and clearly aligned with their objectives
    - document and approve performance reporting policies and standards
    - provide training for councillors and staff on effective performance measurement, management and reporting, and

    2. The sector should develop regulations establishing minimum standards for the form and content of performance statements and that Local Government Victoria, councils and local government peak bodies should adopt the proposed local government performance reporting framework and implementation strategy.

    In response to the VAGO audit recommendations, DPCD has embarked on a project to develop a mandatory performance reporting framework for local government. Performance indicators and a reporting framework will be available on a trial basis from July 2013 and for mandatory implementation in the 2014/15 financial year. More information about the local government performance reporting framework can be found at www.dpcd.vic.gov.au/localgovernment/performance-reporting.

    The KSAs contained in this section of the budget report and in Appendix D have been developed with consideration of the issues raised by VAG). Particular consideration has been given to the provision of performance information that incorporates the attributes of timeliness, cost, quantity and quality. The KSAs are presented as examples only and should not be considered a model or complete set of KSAs. The examples presented here include a range of indicators to help measure the achievement of the KSAs from different perspectives. Councils should select indicators that are relevant to their own circumstances and which are comprehensive and balanced.

**Reconciliation with budgeted operating result**

11. The reconciliation with budgeted operating result is not mandated however, it is suggested that such a reconciliation is good practice as it shows how the strategic objectives contained in the Council Plan have been funded in the Budget.

# 3. Budget influences[1]

This section sets out the key budget influences arising from the internal and external environment within which the Council operates.

## 3.1 Snapshot of Victorian City Council[2]

Victorian City Council is located on the northern edge of Melbourne. The city, covering an area of 51 square kilometres, comprises the former cities of East and West and the southern parts of the former North municipality.

The current City was created through two stages of amalgamation with the first stage between the former City of East and the former City of West in 1994. Victorian City was then adopted as the official name of the City. In the second stage, the southern part of the former City of North was subsequently added to this newly created municipality.

### Population

In June 1994, the preliminary estimated resident population of the City was 108,861 people. In the 10 years from 1995 to 2005, the population dropped by about 4,000. It has however been fairly stable since 2005 at around 104,000. (Source: Australian Bureau of Statistics, Estimated Resident Population).

### Ageing population

The population is ageing and the city has a greater proportion of older people than to the Melbourne average. The age profile is similar to metropolitan averages however there is a slightly lower proportion of 5 to 14 year olds and 45 to 64 year olds. In addition, the proportion of 25 to 44 year olds is higher and the proportion of people aged over 65 years is significantly higher. (Source: Australian Bureau of Statistics, Census of Population and Housing).

### Births

Despite an ageing population, approximately 1,900 babies have been born each year since 2005. In the 2012/13 financial year 2,219 babies were born in the municipality. (Source: Maternal and Child Health database).

### Cultural diversity

The City is a highly culturally and linguistically diverse municipality. Many different cultural groups live in Victorian City and more than 100 different languages are spoken at home by residents.

Just over one third of residents were born overseas. Of the total population, 61% were born in Australia. Of those residents born overseas, 88% were born in non-English-speaking countries and 12% were born in English-speaking countries. The main countries of birth of residents, apart from Australia, represent the traditional migrant groups from Europe, including Italy, Greece and the United Kingdom. (Source: Australian Bureau of Statistics, Census of Population and Housing).

### Housing

The number of homes is increasing. In 2011, there were 52,584 dwellings, of which 52,505 were private homes and 79 were non-private dwellings such as nursing homes, hotels and hostels. While more housing stock is available, the population has remained fairly stable, due to decreasing household sizes. Trends show that the number of one-person households is increasing, as is the number of small households.

The proportion of separate houses has fallen over the past decade with the growth of flats, units or apartments, along with semidetached, row, terrace and townhouses. Residential property prices over the past few years have risen at a relatively fast rate in comparison to the Melbourne metropolitan area. The median house price increased from $212,500 in 2003 to $380,500 in 2011. (Source: Department of Sustainability and Environment, A Guide to Property Values, 2010).

### Education and occupation

In the past decade, Melbourne's northern region, which includes Victorian City, has experienced a steadily improving retention of students from Year 10 to Year 12, up from 86% in 2002 to 87.7% in 2011. (Source: Department of Education and Training, Summary Statistics Victorian Schools).

People in Victorian City are also becoming better educated. The proportion of residents who have non-school qualifications is increasing. Many more residents in 2011 had completed a non-school qualification than in 2000 (33% compared with 22%). (Source: Australian Bureau of Statistics, Census of Population and Housing).

The occupations of residents have also changed. The proportion of professionals, associate professionals and intermediate clerical, sales and service workers has increased, while a fall has occurred in the proportion of tradespeople and related workers, advanced clerical, sales and service workers and labourers and related workers.

### Budget implications

As a result of the City's demographic profile there are a number of budget implications in the short and long term as follows:

- Cultural and linguistic diversity means that Council needs to use a variety of media in languages other than English for mass communication with citizens, and use interpreting services for interpersonal communication with citizens. Council also draws on the abilities of its bilingual staff.
- The small area of Victorian City reduces transport costs when compared to rural Shires. Services can be centralised as most citizens are able to reach Council facilities without extensive travel.
- Over 25% of ratepayers are entitled to the pensioner rebate. As pensioners are often asset rich but income poor, the adoption of significant rate increases has a real impact on the disposable income of a significant proportion of our community. Council has hardship provisions in place but these can impact on cash balances when large volumes of ratepayers are involved. In addition, Council has long waiting lists for services to older people such as 'Home Help' and 'Delivered Meals' but not the income to service this demand.
- The city is substantially developed and while it is experiencing a small increase in property numbers, these mainly arise from higher density developments. The budget implications arise in Council having to cope with replacement of infrastructure such as drains which cannot cope with the higher density. These costs cannot be passed on to the developer and are paid for from rates. The rates received from new dwellings do not offset the significant infrastructure costs.

## 3.2 External influences[3-6]

In preparing the 2013/14 budget, a number of external influences have been taken into consideration, because they are likely to impact significantly on the services delivered by Council in the budget period. These include:

- Consumer Price Index (CPI) increases on goods and services of 2.2% per annum (ABS release 23 January 2013 State-wide CPI is forecast to be 2.5% for the 2013/14 year (Victorian Budget Papers 2012/13).
- Australian Average Weekly Earnings (AWE) growth for Public Sector full-time adult ordinary time earnings in the 12 months to May 2012 was 3.6% (ABS release 16 August 2012). The wages price index in Victoria is projected to be 3.25% per annum in 2013/14 increasing to 3.50% in the subsequent two years (Victorian Budget Papers 2012/13). Council must renegotiate a new Collective Agreement during the 2013/14 year for commencement on 1 July 2014.
- The 'Engineering Construction' and 'Non-Residential Building' Indices prepared by the Construction Forecasting Council are forecast at 2.4% and 3.8% respectively for 2013/14.
- Reduction of $0.40 million in Victorian Grants Commission funding.
- Receipt of significant capital works funding of $6.28 million for the construction of a Velodrome and State Bowls Centre at Victoria Park and the completion of Roads to Recovery projects
- Increases of 10% (or $4.84 per tonne) in the levy payable to the State Government upon disposal of waste into landfill, resulting in additional waste tipping costs of $0.18 million. The levy has increased from $9 per tonne in 2008/09 to $53.24 per tonne in 2013/14 (591% increase in 5 years) and has added $1.25 million to Council's costs.

- The carbon price introduced by the Federal Government on 1 July 2012 is forecast to increase by CPI (2.2%) from $23 per tonne to $23.50 per tonne. The price on carbon is estimated to add $1.30 million to waste disposal, energy and general cost inputs of Council in 2013/14.
- A new fire levy will apply to all private property owners – including persons and organisations who do not currently pay council rates, such as churches, charities, private schools and RSL's – from 1 July 2013. A number of Council properties will also be subject to the fire levy. Under new legislation, the Fire Services Property Levy Act 2012, introduced as a result of recommendations by the Victorian Bushfires Royal Commission (VBRC), the new Fire Services Property Levy (FSPL) will be collected by Council on behalf of the State government, to fund the operations of the MFB and CFA.
- A write down of flood/fire affected assets estimated at $1.00 million in 2012/13 and estimated repairs of $1.20 million over two years. Compensation of $0.40 million has been confirmed by Council's insurers, with the balance to be funded by the Natural Disaster Assistance Fund (NDAF). An advance payment of $1.00 million from the NDAF was received in 2012/13. Council is also eligible to claim the first $0.03 million from the Victorian Grants Commission.

## 3.3 Internal influences[7-8]

As well as external influences, there are also a number of internal influences which are expected to have a significant impact on the preparation of the 2013/14 Budget. These matters have arisen from events occurring in the 2012/13 year resulting in variances between the forecast actual and budgeted results for that year and matters expected to arise in the 2013/14 year. These matters and their financial impact are set out below:

- Overrun of $0.48 million in the maintenance of trees due to the removal of severely diseased street trees.
- Reduction in the budgeted draw down from discretionary reserves of $0.30 million as a result of government funding being awarded for the Victoria Civic Centre redevelopment.
- Higher than expected wage increases of 5% per annum resulting in additional ongoing employee costs of $0.46 million per annum.
- Ongoing savings of $0.23 million as a result of meals production being contracted out at a rate more favourable than budget.
- Council's decision during the year to bring the street cleansing service in-house. This has resulted in start up investment costs of $0.80 million for plant and equipment to be funded from investment reserves and ongoing operational costs of $1.40 million per annum.

## 3.4 Budget principles[9]

In response to these influences, guidelines were prepared and distributed to all Council officers with budget responsibilities. The guidelines set out the key budget principles upon which the officers were to prepare their budgets. The principles included:

- Existing fees and charges to be increased in line with CPI or market levels.
- Grants to be based on confirmed funding levels.
- New revenue sources to be identified where possible.
- Service levels to be maintained at 2012/13 levels with the aim to use less resources with an emphasis on innovation and efficiency.
- Salaries and wages to be increased in line with Average Weekly Earnings.
- Contract labour to be minimised.
- Construction and material costs to increase in line with the Engineering Construction Index
- New initiatives or employee proposals to be justified through a business case.
- Real savings in expenditure and increases in revenue identified in 2012/13 to be preserved
- Operating revenues and expenses arising from completed 2012/13 capital projects to be included.

## 3.5 Long term strategies

The budget includes consideration of a number of long term strategies and contextual information to assist Council to prepare the Budget in a proper financial management context. These include a Strategic Resource Plan for 2013/14 to 2016/17 (section 8.), Rating Information (section 9.) and Other Long Term Strategies (section 10.) including borrowings, infrastructure and service delivery.

## Commentary – Budget influences

**Purpose of budget influences**

1. The purpose of the budget influences is to set out those matters which have had a significant influence on the framing of the budget. The budget influences section should as a minimum include the following main areas:
   (a) Snapshot of Victorian City Council
   (b) External influences
   (c) Internal influences
   (d) Budget principles
   (e) Legislative requirements.

   Councils should critically review the range of potential external influences every year in the preparation of the long term financial strategy and annual budget. The most effective long term financial strategies are a driver, not an extrapolation, of the annual budget. Future external influences, such as expected increases in energy and water costs or a carbon trading scheme, may not have a significant impact on the current budget period but will have a significant impact on the long term sustainability of Council and therefore should be considered in the budget preparation process.

   Only the major influences should be included in the budget report to enable the reader to quickly identify those factors which are driving the budget.

**Snapshot of Victorian City Council**

2. The purpose of the snapshot is to provide a summary of the makeup of the community and its environment and some of the issues and opportunities faced by the Council which drive demand for its services and its budget preparation. In particular, it is aimed at people who may not be familiar with the Council and its community. It should assist a reader to understand why budgets may differ when comparing different communities and their Council Budgets. The snapshot should address key community factors and must link those factors to their impact on the budget. The impact on the budget may not always be able to be quantified.

**External influences**

3. This section sets out the external influences arising from third party actions, over which Council has little or no control, for example proposed changes in legislation or the introduction of new State government funded initiatives.

4. Reference has also been made to a report prepared by the MAV Economic Policy & Research Unit – "Local Government Cost Index Report" – which can be obtained at http://www.mav.asn.au/about-local-government/local-government-finance/Pages/Cost-index.aspx. This report argues that CPI does not properly reflect local government cost increases as a broad breakdown of the expenditure profile of local government indicates that 80% of cost increases are related to labour and 20% to non-residential construction costs. It suggests that a composite weighted index comprising Average Weekly Earnings and an index of materials costs may be more appropriate

5. Councils affected by a natural disaster such as the 2010/11 floods will have damaged or destroyed non-current assets on which they will need to perform impairment tests to ensure carrying values are correct. Repair of these assets and receipt of compensation will occur over a number of years, therefore care should be taken to identify the reporting periods in which these transactions will occur when preparing the Income Statement and Balance Sheet for the 2013/14 budget and Strategic Resource Plan.

   The Department of Planning and Community Development (DPCD) released "Accounting for Natural Disasters – a guide" in July 2011 to assist councils with the required accounting recognition, measurement and disclosure requirements that may arise as a result of a natural disaster. The guide states that, where compensation is received in respect of a written-off asset, the impairment and derecognition of the asset and the expected compensation cannot be netted off. They need to be treated as separate transactions particularly as the loss resulting in the impairment may occur in one reporting period with the receipt of compensation occurring in a subsequent reporting period.

6. A new fire levy will apply to all private property owners – including persons and organisations who do not currently pay council rates, such as churches, charities, private schools and RSL's – from 1 July 2013.

   Under new legislation, the Fire Services Property Levy Act 2012, introduced as a result of recommendations by the Victorian Bushfires Royal Commission (VBRC), the new Fire Services Property levy (FSPL) will be collected by Council on behalf of the State government to fund the operations of the Metropolitan Fire Brigade (MFB) and Country Fire Authority (CFA). 100% of funds collected from the FSPL will be paid direct to the State Government.

## Commentary – Budget influences

Previously, the State and local governments each provided 12.5 per cent of the MFB budget, with insurance companies contributing 75 per cent raised through a levy on insurance policies. Insurance policy holders also funded 77.5 per cent of the CFA's budget, with the State contributing the rest.

From 1 July 2013, the Fire Services Property Levy will replace the insurance company and local government contribution, with the amount payable by property owners being based on the capital improved value (CIV) of their property.

The actual value of the new FSPL will depend on several factors, including whether the property is in a CFA or MFB area and the type of property. The FSPL has two components:

- a fixed charge - forecast to be $100 for residential properties and $200 for other property types such as industrial, commercial and farms; and
- a variable component based on the property's CIV.

According to the State Department of Treasury and Finance, the estimated cost of the FSPL for a townhouse valued at $595,000 in a MFB zone will be about $145, while for a business valued at $1.069 million in a CFA zone it will be about $1,579 in 2013/14. It is understood that persons who qualify for the pensioner discount on their council rates will receive a $50 reduction off the new FSPL.

It is understood that Local Government Victoria will be issuing advice to all councils on an accounting policy for treatment of the FSPL. The advice was not available at the time this Guide was updated.

For more information on the FSPL, visit www.dtf.vic.gov.au.

**Internal influences**

7. This section sets out the internal influences arising from Council actions over which it does have some element of control, for example the approval of unbudgeted capital expenditure in the current year or matters expected to arise in the following year such as bringing a major outsourced service in-house.

8. In order to properly identify the internal influences expected to significantly impact on the Budget, it is recommended that an analysis of forecast actual versus budgeted results be carried out for the current year. This analysis should cover the following key elements:
   (a) Operating performance
   (b) Cash performance
   (c) Capital performance.

**Budget principles**

9. This section sets out the budget principles which have been established to guide the budget preparation as a result of the desired Council Plan outcomes and the significant influences. As with 3. and 5. above, only the major budget principles should be included to enable the reader to quickly determine how the budgeted income and expenditure has been determined in light of the significant influences and what measures have been taken to ensure the optimal outcome for Council.

# 4. Analysis of operating budget[1-2]

This section analyses the operating budget including expected income and expenses of the Council for the 2013/14 year.

## 4.1 Budgeted income statement[3-9]

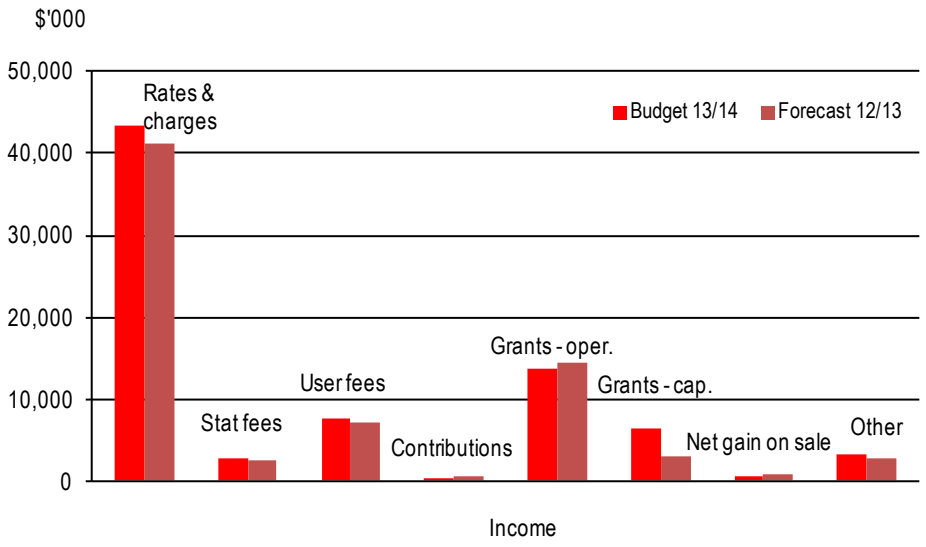
| | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| Total income | 4.2 | 72,571 | 77,574 | 5,003 |
| Total expenses | 4.3 | (74,493) | (76,529) | (2,036) |
| **Surplus (deficit) for the year** | | **(1,922)** | **1,045** | 2,967 |
| Grants – capital | 4.2.6 | (2,903) | (6,277) | (3,374) |
| Contributions - non-monetary assets | | 0 | 0 | 0 |
| **Underlying surplus (deficit)** | 4.1.1 | **(4,825)** | **(5,232)** | (407) |

### 4.1.1 Underlying deficit ($0.41 million increase)

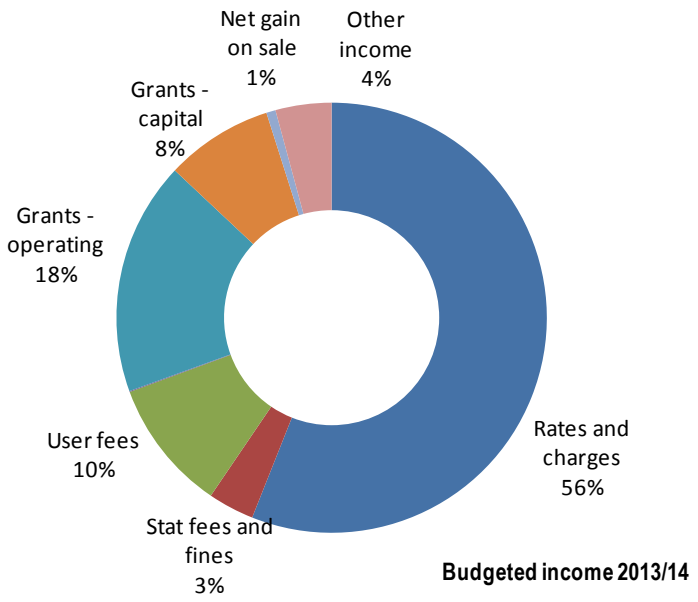
The underlying result is the net surplus or deficit for the year adjusted for capital grants, contributions of non-monetary assets and other once-off adjustments. It is a measure of financial sustainability and Council's ability to achieve its service delivery objectives as it is not impacted by non-recurring or once-off items of income and expenses which can often mask the operating result. The underlying result for the 2013/14 year is a deficit of $5.23 million which is an increase of $0.41 million over the 2012/13 year. In calculating the underlying result, Council has excluded grants received for capital purposes as funding for the capital works program is once-off and usually non-recurrent. Contributions of non-monetary assets are excluded as the value of assets assumed by Council is dependent on the level of development activity each year.

## 4.2 Income[4-6,9]

| Income Types | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| Rates and charges | 4.2.1 | 41,195 | 43,457 | 2,262 |
| Statutory fees and fines | 4.2.2 | 2,445 | 2,690 | 245 |
| User fees | 4.2.3 | 7,198 | 7,680 | 482 |
| Contributions - cash | 4.2.4 | 661 | 51 | (610) |
| Grants - operating | 4.2.5 | 14,523 | 13,617 | (906) |
| Grants – capital | 4.2.6 | 2,903 | 6,277 | 3,374 |
| Net gain on sale of assets | 4.2.7 | 823 | 539 | (284) |
| Other income | 4.2.8 | 2,823 | 3,263 | 440 |
| **Total income** | | **72,571** | **77,574** | 5,003 |




Source: Appendix A




### 4.2.1 Rates and charges ($2.26 million increase)

It is proposed that general rate income be increased by 3.9% or $2.26 million over 2012/13 to $43.46 million. Supplementary rates are forecast to increase by $0.23 million over 2012/13 to $0.43 million. Section 9. "Rating Information" includes a more detailed analysis of the rates and charges to be levied for 2013/14.

### 4.2.2 Statutory fees and fines ($0.25 million increase)

Statutory fees relate mainly to fees and fines levied in accordance with legislation and include animal registrations, Health Act registrations and parking fines. Increases in statutory fees are made in accordance with legislative requirements.

Statutory fees are forecast to increase by 10.0% or $0.25 million compared to 2012/13. Statutory Planning fees will increase by $0.17 million due to the planned release of two major property developments and increased activity in the building sector. Traffic Enforcement fees will also increase by $0.06 million due to the appointment of an additional enforcement officer.

A detailed listing of statutory fees is included in Appendix E.

### 4.2.3 User fees ($0.48 million increase)

User charges relate mainly to the recovery of service delivery costs through the charging of fees to users of Council's services. These include separate rating schemes, use of leisure, entertainment and other community facilities and the provision of human services such as family day care and home help services. In setting the budget, the key principle for determining the level of user charges has been to ensure that increases do not exceed CPI increases or market levels.

User charges are projected to increase by 6.7% or $0.48 million over 2012/13. The main area contributing to the increase is leisure services ($0.55 million) due to expected increased patronage of Council facilities. Council has also anticipated a reduction in fees from the Transfer Station ($0.15 million) resulting from its temporary closure in the budget year. In addition, Council plans to increase user charges for all areas by 2.5% in line with expected inflationary trends over the budget period to maintain parity between user charges and the costs of service delivery.

A detailed listing of fees and charges is included in Appendix E.

### 4.2.4 Contributions - cash ($0.60 million decrease)

Contributions relate to monies paid by developers in regard to public resort and recreation, drainage and car parking in accordance with planning permits issued for property development.

Contributions are projected to decrease by $0.60 million or 92.3% compared to 2012/13 due mainly to the completion of a number of major property developments within the municipality during the 2012/13 year.

### 4.2.5 Grants - operating ($0.91 million decrease)

Operating grants include all monies received from State and Federal sources for the purposes of funding the delivery of Council's services to ratepayers and contributions from other parties towards property development costs. Overall, the level of operating grants has decreased by 6.2% or $0.91 million compared to 2012/13. Specific operating grants have increased by 13.0% or $0.73 million overall since last year. Significant movements in grant funding are summarised below:

| Grant Funding Types | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|
| Family Day Care | 365 | 522 | 157 |
| General Home Care | 930 | 1,165 | 235 |
| Primary Care Partnerships | 80 | 240 | 160 |
| Aged Care | 125 | 265 | 140 |
| Victorian Grants Commission | 7,191 | 6,779 | (412) |
| Developer Contributions | 1,210 | 420 | (790) |

Increases in specific operating grant funding reflect expected increased demand for these services. The reduction in Victorian Grants Commission (VGC) funding, results from changes to the funding formula following a review of the basis of funding by the VGC. This decrease is contrary to the statewide increase of 3.4% or $11 million in the $324 million Commonwealth financial assistance grants paid to Victorian local governments – (Indicative allocation advice received from Victorian Grants Commission). The reduction in developer contributions is mainly due to the completion of the Northville Shopping Centre in the 2012/13 year. Operating grants are further classified in the Standard Statements in Appendix A according to whether they are received each year (recurrent) or received on a once-off or short term basis (non-recurrent).

### 4.2.6 Grants - capital ($3.37 million increase)

Capital grants include all monies received from State, Federal and community sources for the purposes of funding the capital works program. Overall the level of capital grants has increased by 116.0% or $3.37 million compared to 2012/13 due mainly to specific funding for some large capital works projects. Section 6. "Analysis of Capital Budget" includes a more detailed analysis of the grants and contributions expected to be received during the 2013/14 year. Capital grants are further classified in the Standard Statements in Appendix A according to whether they are received each year (recurrent) or received on a once-off or short term basis (non-recurrent).

### 4.2.7 Net gain on sale of assets ($0.29 million decrease)

Proceeds from the sale of Council assets is forecast to be $2.50 million for 2013/14 and relate mainly to the planned cyclical replacement of part of the plant and vehicle fleet ($1.70 million) and sale of properties including surplus land and numerous rights-of-way throughout the municipality ($0.80 million). The written down value of assets sold is forecast to be $1.96 million.

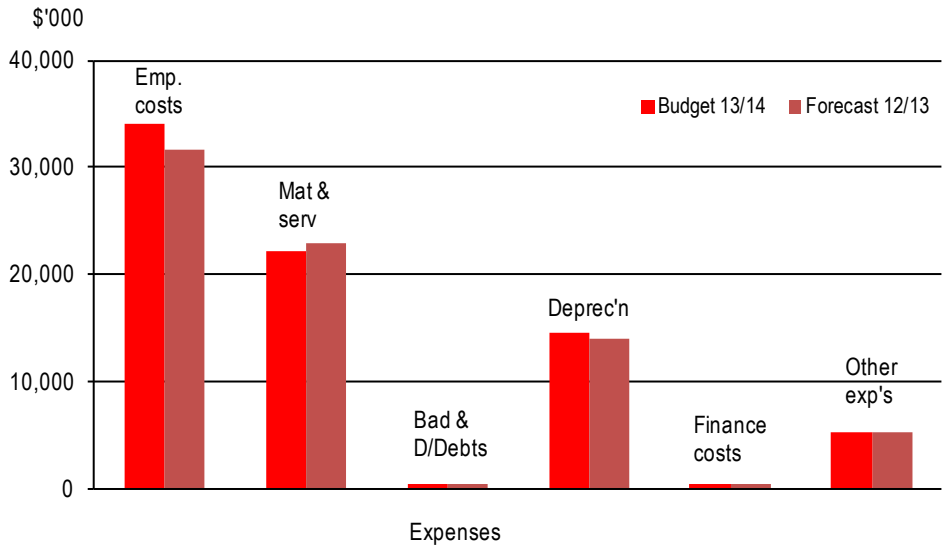
### 4.2.8 Other income ($0.44 million increase)

Other income relates to a range of items such as private works, cost recoups and other miscellaneous income items. It also includes interest revenue on investments and rate arrears.

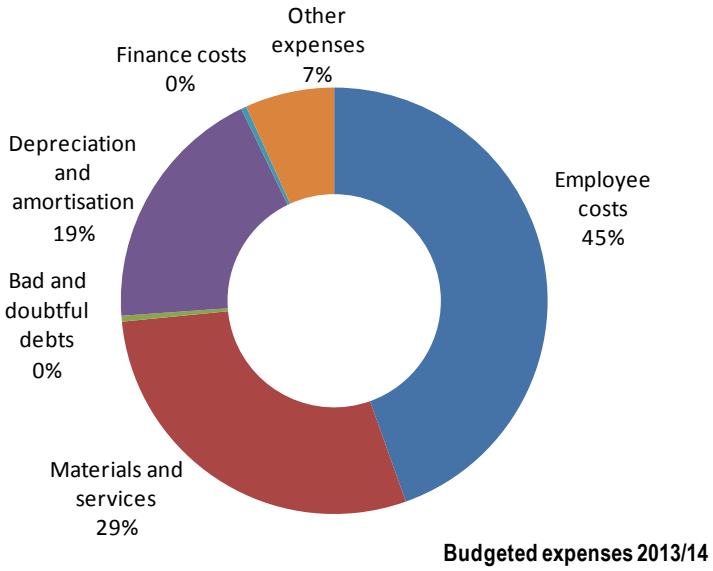
Other income is forecast to increase by 15.6% or $0.44 million compared to 2012/13. Interest on investments is forecast to decline by 10.0% or $0.10 million compared to 2012/13. This is mainly due to a forecast reduction in Council's available cash reserves during 2013/14 to fund major infrastructure projects. Interest on unpaid rates is forecast to increase by $0.03 million compared to 2012/13 following an expected increase in the level of unpaid rates during 2013/14. The increase in other income items is due mainly to an increased share of the operating surpluses from Council's outsourced leisure centres ($0.20 million) and payments from the State Revenue Office for the purchase of valuation data ($0.25 million).

## 4.3 Expenses[7-9]

| Expense Types | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| Employee costs | 4.3.1 | 31,541 | 34,091 | 2,550 |
| Materials and services | 4.3.2 | 22,937 | 22,107 | (830) |
| Bad and doubtful debts | 4.3.3 | 314 | 340 | 26 |
| Depreciation and amortisation | 4.3.4 | 14,034 | 14,500 | 466 |
| Finance costs | 4.3.5 | 380 | 312 | (68) |
| Other expenses | 4.3.6 | 5,287 | 5,179 | (108) |
| **Total expenses** | | **74,493** | **76,529** | 2,036 |




Source: Appendix A




### 4.3.1 Employee costs ($2.55 million increase)

Employee costs include all labour related expenditure such as wages and salaries and on-costs such as allowances, leave entitlements, employer superannuation, rostered days off, etc.

Employee costs are forecast to increase by 8.1% or $2.55 million compared to 2012/13. This increase relates to three key factors:

- Renegotiation of Council's Enterprise Bargaining Agreement (EBA) which is estimated to cost $1.30 million in 2013/14
- Increases in staff numbers resulting largely from Council's decision to re-commence in-house street cleansing following the expiry of the externally provided street cleansing contract during the 2012/13 year. The cost of this change to service delivery in 2013/14 will be $0.77 million which will be offset by a saving in external contract costs
- Anticipated non EBA wages growth of 3.5% or $0.48 million due mainly to small increases in staff numbers in Family Day Care and General Home Care in response to increased community demand for these services. As indicated above, additional funding will be available to cover the extension of these services.

In summary, average staff numbers (based on monthly averages) during the budget period are as follows:

| Type of employment | Forecast Actual 2012/13 EFT's | Budget 2013/14 EFT's |
|---|---|---|
| Permanent | 472 | 485 |
| Casual | 315 | 324 |
| **Total** | **787** | **809** |

The most significant increases in employee costs by service unit are summarised below:

| Department | Service Unit | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| City Services | Street cleansing | 0 | 772 | (772) |
| | Collection services | 1,089 | 1,503 | (414) |
| | Parks and gardens | 2,168 | 2,280 | (112) |
| Strategy and Governance | Statutory planning | 690 | 866 | (176) |
| Community Services | Home support | 427 | 654 | (227) |
| | Maternal and child health | 940 | 1,031 | (91) |
| Culture and Leisure | Urban design | 134 | 245 | (111) |

### 4.3.2 Materials and services ($0.83 million decrease)

Materials and services include the purchases of consumables, payments to contractors for the provision of services and utility costs. Materials and services are forecast to decrease by 3.6% or $0.83 million compared to 2012/13.

Consumables is forecast to increase by $0.47 million or 13.8% compared to 2012/13and relates mainly to an increase in fuel costs to operate the Council's plant and vehicle fleet as a result of significant increases in diesel and petrol prices.

External contracts are forecast to decrease by 9.0% or $1.40 million compared to 2012/13. The main areas contributing to this decrease are the cessation of the Street Cleansing contract ($1.60 million) and Environmental Health ($0.31 million) as a result of a change in the Health Food Act requirements. These have been offset by expected increases in contracts relating to Primary Care Partnerships ($0.24 million) due to an expansion of the service, Council elections ($0.21 million), Facilities Maintenance ($0.13 million) due to Council requests to increase maintenance levels and Family Day Care ($0.11 million) due to additional contract staff required to meet anticipated increases in demand for the service.

Utility costs relate to telecommunications, including usage of telephones and other utilities such as water, gas and electricity. Utility costs are forecast to increase by 2.1% or $0.08 million compared to 2012/13 resulting from expected additional street lighting costs following an unfavourable renegotiation of Council's electricity contract with its supplier.

### 4.3.3 Bad and doubtful debts ($0.03 million increase)

Bad and doubtful debts is projected to increase by $0.03 million or 8.3% compared to 2012/13 due mainly to an increase in parking fines forwarded to Perin Court for collection and a consequent reduction in collection rates.

### 4.3.4 Depreciation and amortisation ($0.47 million increase)

Depreciation is an accounting measure which attempts to allocate the value of an asset over its useful life for Council's property, plant and equipment including infrastructure assets such as roads and drains. The increase of $0.47 million for 2013/14 is due mainly to the completion of the 2013/14 capital works program and the full year effect of depreciation on the 2012/13 capital works program. Refer to section 6. 'Analysis of Capital Budget' for a more detailed analysis of Council's capital works program for the 2013/14 year.

### 4.3.5 Finance costs ($0.07 million decrease)

Borrowing costs relate to interest charged by financial institutions on funds borrowed. The reduction in borrowing costs results from the planned reduction in borrowings due to repayment of principal in accordance with loan agreements.

### 4.3.6 Other expenses ($0.11 million decrease)

Other expenses relate to a range of unclassified items including contributions to community groups, advertising, insurances, motor vehicle registrations and other miscellaneous expenditure items. Other expenses are forecast to decrease by 2.0% or $0.11 million compared to 2012/13. This is mainly due to a reduction in Council's contribution to the XYZ Children's Services Association due to a change in government funding arrangements.

## Commentary – Analysis of operating budget

**Purpose of analysis of operating budget**

1. The purpose of analysis of the operating budget is to provide an understanding to the community of the key income and expense items making up the current year forecast and forthcoming year operating budget introduced in the Executive Summary. The analysis of the operating budget should include as a minimum, an analysis of significant items and movements in the following:
   (a) Underlying result
   (b) Income
   (c) Expenses.

**Consistency with annual reporting requirements**

2. Income and expenses included in the annual budget and strategic resource plan should be measured consistently against the requirements of the Act and relevant accounting standards. Failure to do this will confuse readers and make comparison of actual and budgeted operating results difficult. This means that rate determination information should not be used. In order to achieve full consistency between the budget report and the annual report, the presentation of income and expense items in the budget report should apply the same categories as disclosed in the Income Statement and comply with Council's accounting policies as set out in the annual report. This is also a mandatory requirement in Regulations 5 and 6.

**Underlying result**

3. This section should include a reconciliation of the surplus (deficit) for the year to the underlying result showing the reconciling items separately. It is relevant to consider this reconciliation as the surplus (deficit) is often masked by non-recurring or once-off items of income and expenses. The underlying result is therefore considered a better indicator of financial sustainability.

   This definition differs from the underlying surplus as determined by the Victorian Auditor General in his report "Local Government: Results of the 2011-12 Audits" issued in November 2012 which includes capital contributions in the calculation. In this Guide, capital grants are excluded from the definition on the basis that they are recorded as income but are reflected in assets capitalised on Council's balance sheet and depreciated in later years.

**Income**

4. This section should include a detailed analysis of the significant income items comprising the total income to be generated by Council. It should include the following:
   (a) A comparison in tabular form of the current year forecast actual, forthcoming year budget and variance for each income item
   (b) Disclosure of the information provided in (a) graphically to assist those readers who are not trained in the analysis and interpretation of financial information
   (c) An analysis of the significant variances (+/-10%) between the current year forecast and forthcoming year budget, which briefly summarises in narrative form the underlying reasons for the variances. The analysis should include the key elements making up the variances.

5. If an item has been considered elsewhere in the budget it should be referenced to that section (for example, rates – rating information). Where an item is so significant as to warrant more than a brief explanation, the detailed explanation should be included as an appendix and referenced to a brief explanation in this section.

6. Net gain on sale of assets has been included as income in the example presented. If a net loss on sale of assets is budgeted then this should be presented as an expense in table 4.3.

**Expenses**

7. This section should include a detailed analysis of the significant expense items comprising the total expenses to be incurred by Council. It should include the following:
   (a) A comparison in tabular form of the current year forecast actual, forthcoming year budget and

## Commentary – Analysis of operating budget

variance for each expense item

(b) Disclosure of the information provided in (a) graphically to assist those readers who are not trained in the analysis and interpretation of financial information

(c) An analysis of the significant variances (+/-10%) between the current year forecast and forthcoming year budget, which briefly summarises in narrative form the underlying reasons for the variances. The analysis should include the key elements making up the variances.

8. If an item has been considered elsewhere in the budget it should be referenced to that section (for example, borrowing costs – borrowing strategy). Where an item is so significant as to warrant more than a brief explanation, it should be included as an appendix and referenced to a brief explanation in this section.

**Unusual income and expenses**

9. It is common for councils to have unusual items of income and expenses. These should not be ignored in the budget process. Councils should make reasonable estimates of these items and include them in the budget. Typical items which are likely to fit into these categories include:

(a) Recognition of assets not previously recognised by councils

(b) Contributions of subdivisional and other infrastructure by external parties at no cost to Council.

## 5. Analysis of budgeted cash position[1-2]

This section analyses the expected cash flows from the operating, investing and financing activities of Council for the 2013/14 year. Budgeting cash flows for Council is a key factor in setting the level of rates and providing a guide to the level of capital expenditure that can be sustained with or without using existing cash reserves.

The analysis is based on three main categories of cash flows:

- **Operating activities** - Refers to the cash generated or used in the normal service delivery functions of Council. Cash remaining after paying for the provision of services to the community may be available for investment in capital works, or repayment of debt
- **Investing activities** - Refers to cash generated or used in the enhancement or creation of infrastructure and other assets. These activities also include the acquisition and sale of other assets such as vehicles, property and equipment
- **Financing activities** - Refers to cash generated or used in the financing of Council functions and include borrowings from financial institutions and advancing of repayable loans to other organisations. These activities also include repayment of the principal component of loan repayments for the year.

### 5.1 Budgeted cash flow statement[3-9]

| | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | 5.1.1 | | | |
| *Receipts* | | | | |
| Rates and charges | | 41,410 | 43,357 | 1,947 |
| User fees and fines | | 10,044 | 10,370 | 326 |
| Grants - operating | | 13,313 | 13,617 | 304 |
| Grants - capital | | 2,903 | 6,277 | 3,374 |
| Interest | | 2,044 | 1,820 | (224) |
| Other receipts | | 3,172 | 1,494 | (1,678) |
| | | **72,886** | **76,935** | 4,049 |
| *Payments* | | | | |
| Employee costs | | (31,185) | (33,841) | (2,656) |
| Other payments | | (29,829) | (27,635) | 2,194 |
| | | **(61,014)** | **(61,476)** | (462) |
| **Net cash provided by operating activities** | | **11,872** | **15,459** | 3,587 |
| **Cash flows from investing activities** | 5.1.2 | | | |
| Proceeds from sales of property, infrastructure, plant and equipment | | 1,664 | 3,741 | 2,077 |
| Repayment of loans and advances | | 10 | 199 | 189 |
| Deposits | | 50 | 0 | (50) |
| Payments for property, infrastructure, plant and equipment | | (21,007) | (29,195) | (8,188) |
| **Net cash used in investing activities** | | **(19,283)** | **(25,255)** | (5,972) |
| **Cash flows from financing activities** | 5.1.3 | | | |
| Finance costs | | (380) | (312) | 68 |
| Proceeds from borrowings | | 0 | 0 | 0 |
| Repayment of borrowings | | (1,161) | (1,161) | 0 |
| **Net cash used in financing activities** | | **(1,541)** | **(1,473)** | 68 |
| **Net decrease in cash and cash equivalents** | | **(8,952)** | **(11,269)** | (2,317) |
| Cash and cash equivalents at the beginning of the period | | 32,428 | 23,476 | (8,952) |
| **Cash and cash equivalents at end of the year** | 5.1.4 | **23,476** | **12,207** | (11,269) |

Source: Appendix A

### 5.1.1 Operating activities ($3.59 million increase)

The increase in cash inflows from operating activities is due mainly to a $3.37 million increase in capital grants to fund the capital works program and a $2.26 million increase in rates and charges, which is in line with the rate increase of 3.9%.

The net cash flows from operating activities does not equal the surplus (deficit) for the year as the expected revenues and expenses of the Council include non-cash items which have been excluded from the Cash Flow Statement. The budgeted operating result is reconciled to budgeted cash flows available from operating activities as set out in the following table.

| | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|
| **Surplus (deficit) for the year** | **(1,922)** | **1,045** | 2,967 |
| Depreciation | 14,034 | 14,500 | 466 |
| Loss (gain) on sale of assets | 417 | (1,778) | (2,195) |
| Net movement in current assets and liabilities | (657) | 1,692 | 2,349 |
| **Cash flows available from operating activities** | **11,872** | **15,459** | 3,587 |

### 5.1.2 Investing activities ($5.97 million decrease)

The large increase in payments for investing activities represents the planned large increase in capital works expenditure disclosed in section 10 of this budget report. Proceeds from sale of assets are forecast to increase by $2.2 million due to settlement of land sales achieved during 2012/13.

### 5.1.3 Financing activities ($0.07 million decrease)

For 2013/14 the total of principal repayments is $1.16 million and finance charges is $0.31 million.

### 5.1.4 Cash and cash equivalents at end of the year ($11.27 million decrease)

Overall, total cash and investments is forecast to decrease by $11.27 million to $12.21 million as at 30 June 2014, reflecting Council's strategy of using excess cash and investments to enhance existing and create new infrastructure. This is consistent with Council's Strategic Resource Plan (see Section 8), which forecasts a significant reduction in the capital works program from 2013/14 onwards to balance future cash budgets.

## 5.2 Restricted and unrestricted cash and investments[10-13]

Cash and cash equivalents held by Council are restricted in part, and not fully available for Council's operations. The budgeted cash flow statement above indicates that Council is estimating at 30 June 2013 it will have cash and investments of $12.21 million, which has been restricted as shown in the following table.

| | Ref | Forecast Actual 2013 $'000 | Budget 2014 $'000 | Variance $'000 |
|---|---|---|---|---|
| **Total cash and investments** | | **23,476** | **12,207** | (11,269) |
| Restricted cash and investments | | | | |
| - Statutory reserves | 5.2.1 | (936) | (894) | 42 |
| - Discretionary reserves | 5.2.2 | (12,213) | (3,908) | 8,305 |
| **Unrestricted cash and investments** | 5.2.3 | **10,327** | **7,405** | **(2,922)** |

### 5.2.1 Statutory reserves ($0.89 million)

These funds must be applied for specified statutory purposes in accordance with various legislative requirements. While these funds earn interest revenues for Council, the funds are not available for other purposes. During the 2013/14 year $0.42 million is budgeted to be transferred to and $0.46 million from Statutory Reserves.

### 5.2.2 Discretionary reserves ($3.91 million)

These funds are available for whatever purpose Council decides is their best use. In this case Council has made decisions regarding the future use of these funds and unless there is a Council resolution these funds should be used for those earmarked purposes. During the 2013/14 year $1.58 million is budgeted to be transferred to and $9.89 million from Discretionary Reserves. Of the balance on hand at 30 June 2013 $3.75 million is to be expended on incomplete capital works to be carried forward to the 2013/14 year. The decisions about future use of these funds has been reflected in Council's Strategic Resource Plan and any changes in future use of the funds will be made in the context of the future funding requirements set out in the plan.

### 5.2.3 Unrestricted cash and investments ($3.77 million)

These funds are free of all specific Council commitments and represent funds available to meet daily cash flow requirements, unexpected short term needs and any budget commitments which will be expended in the following year such as grants, contributions or carried forward capital works. Of the balance on hand at 30 June 2013, $2.82 million is to be expended to complete capital works carried forward to the 2013/14 year. Council regards these funds as the minimum necessary to ensure that it can meet its commitments as and when they fall due without borrowing further funds. A high level of unrestricted cash and investments is required as 60% of Council's rate revenue is not received until February each year.

## Commentary – Analysis of budgeted cash position

**Purpose of analysis of budgeted cash position**

1. The purpose of this section is to provide an analysis of the cash inflows and outflows forecast for the forthcoming year and the overall change in cash and investments for that year. The analysis of budgeted cash position should include as a minimum, an analysis of the following key points:
   (a) Cash flow statement
   (b) Restricted funds and working capital
   (c) Reconciliation of cash and operating results.

   The analysis needs to clearly show how cash and investments are committed and the level of uncommitted funds. This should be driven by the Strategic Resource Plan.

2. The budgeted cash flow statement is the key financial management tool for establishing cash requirements for both short and long term needs. Linking the budgeted balance sheet for the year to the strategic resource plan can best do this. It is essential that where council is setting a 'deficit budget' (where there is a budgeted decrease in total cash and investments as disclosed in the Budgeted Cash Flow Statement) it can be clearly demonstrated that the deficit is sustainable in the longer term.

**Preparation of budgeted cash flow statements**

3. The budgeted cash position should be prepared in accordance with AASB 107 Cash Flow Statements. However, in order to do this in practice it will be necessary to prepare a budgeted Balance Sheet as at the end of the budget period, since adjustments will need to be made to assets and liabilities as well as income and expenditure to remove non-cash items such as accruals, depreciation, etc. in order to determine cash inflows and outflows. Refer to commentary in section 7 for guidance on how to prepare a budgeted Balance Sheet.

4. In order to enable a meaningful comparison of cash flow against budget, it is necessary to forecast expected cash flows on at least a quarterly basis. This will enable an effective variance analysis to be undertaken and if necessary corrective action to take place. Quarterly cash flow budgets are used for financial management and quarterly reporting purposes and this level of detail is not considered necessary for the budget document. With only an annual cash flow budget, variance analysis cannot take place until the end of the year.

**Analysis of operating activities**

5. This section should include an analysis of the significant operating cash flow variances between the current year forecast and the budget year.

## Commentary – Analysis of budgeted cash position

**Analysis of investing activities**

6. This section should include an analysis of the significant investing cash flow variances between the current year forecast and the budget year. This would include payments made in relation to the capital works program and proceeds from the sale of assets. A distinction should be made here between capital works and capital expenditure. It is the latter, which must be reflected in the budgeted cash flow statement. This section will also include cash flows arising from repayable advances to community organisations, etc.

**Analysis of financing activities**

7. This section should include an analysis of the significant financing cash flow variances between the current year forecast and the budget year. This would include payments made in respect of loan redemption, leases and proceeds from new borrowings. A reference should be made here to section 10.1 Borrowing Strategy where new borrowings are being raised or existing borrowings are being repaid.

**Analysis of cash and cash equivalents at the end of the year**

8. This section should include an analysis of the total change in cash and investments for the year and the closing cash balance. As mentioned above, a reference should be made here to section 8 Strategic Resource Plan stating that the budgeted change in cash is sustainable, particularly where there is a significant net decrease in cash and investments.

**Reconciliation of surplus (deficit) for the year and net cash from operating activities**

9. This section should include a reconciliation of the items which make up the difference between the surplus (deficit) and net cash from operating activities for the year for the forecast actual, the current year and the new budget year. It is relevant to consider this reconciliation since it highlights non-cash items and timing differences in cash inflows and outflows, which may not be apparent in the consideration of the surplus (deficit) or cash result alone. It also identifies the key elements contributing to the cash generated from operations and how they will be used throughout the year, including key shifts in the allocation of funding to the repayment of loans, unrestricted cash and investments and capital expenditure. It also provides a means of identifying clearly the impact of the capital expenditure program and whether council is living within its means.

**Restricted and unrestricted cash and investments**

10. The closing cash balance at the end of the budget year should be notionally allocated between restricted and unrestricted cash and investments. The purpose of this distinction is to show the reader what portion of the cash and investments balance is discretionary (can be used for any purpose) and where it is tied to a particular purpose.

11. Traditionally, these restricted cash assets have also been represented by reserves in the equity section of the Balance Sheet. However, it is not necessary to create equity reserves in this way and the legislation, regulation or resolution imposing the restriction merely requires that these cash assets not be used for any other purposes.

12. It is important that the closing cash balance at the end of the budget year includes all cash and short term investments available for the council to meet operating obligations. In some cases this may mean the inclusion of balances that do not meet the definition of cash. However, the benefits are that the reader can make a total assessment of the cash and short term investment position of the council.

13. Care should be exercised in drawing incorrect conclusions from an adverse cash flow position in any one year as this should be considered in the context of the Strategic Resource Plan.

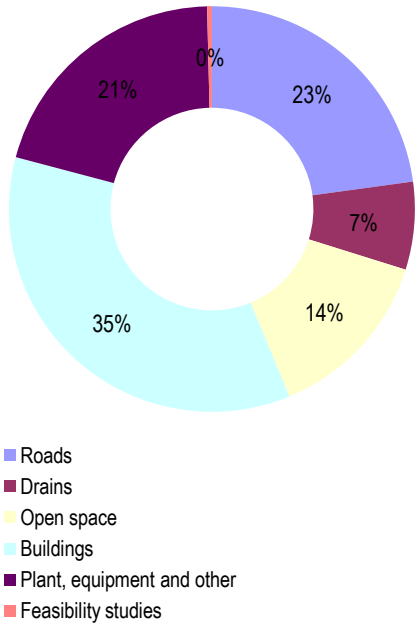
## 6. Analysis of capital budget[1-2]

This section analyses the planned capital expenditure budget for the 2013/14 year and the sources of funding for the capital budget.

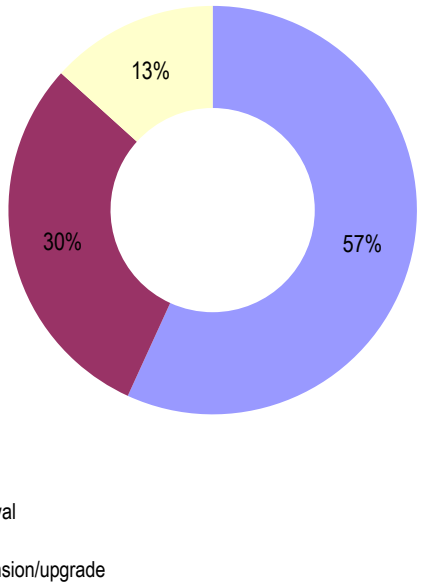
### 6.1 Capital works[3-8]

| Capital Works Areas | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| **Works carried forward** | | | | |
| Roads | 6.1.1 | 832 | 786 | (46) |
| Drains | 6.1.1 | 550 | 235 | (315) |
| Open space | 6.1.1 | 223 | 95 | (128) |
| Buildings | 6.1.1 | 4,850 | 5,054 | 204 |
| Plant, equipment and other | 6.1.1 | 1,085 | 955 | (130) |
| Feasibility studies | 6.1.1 | 50 | 0 | (50) |
| **Total works carried forward** | | **7,590** | **7,125** | (465) |
| **New works** | | | | |
| Roads | 6.1.2 | 4,622 | 5,387 | 765 |
| Drains | 6.1.3 | 1,213 | 1,650 | 437 |
| Open space | 6.1.4 | 1,947 | 3,288 | 1,341 |
| Buildings | 6.1.5 | 2,887 | 8,341 | 5,454 |
| Plant, equipment and other | 6.1.6 | 4,358 | 4,836 | 478 |
| Feasibility studies | 6.1.7 | 0 | 90 | 90 |
| **Total new works** | | **15,027** | **23,592** | 8,565 |
| **Total capital works** | | **22,617** | **30,717** | 8,100 |
| | | | | |
| **Represented by:** | | | | |
| Asset renewal | 6.1.8 | 12,225 | 17,454 | 5,229 |
| New assets | 6.1.8 | 6,850 | 9,176 | 2,326 |
| Asset expansion/upgrade | 6.1.8 | 3,542 | 4,087 | 545 |
| **Total capital works** | | **22,617** | **30,717** | 8,100 |

**Budgeted new capital works 2013/14**




**Budgeted total capital works 2013/14**




Source: appendix A. A more detailed listing of the capital works program is included in Appendix C.

### 6.1.1 Carried forward works ($7.13 million)

At the end of each financial year there are projects which are either incomplete or not commenced due to factors including planning issues, weather delays and extended consultation. For the 2012/13 year it is forecast that $7.13 million of capital works will be incomplete and be carried forward into the 2013/14 year. The more significant projects include the Civic Precinct redevelopment ($0.75 million) and the Newlands Community Facility ($3.00 million).

### 6.1.2 Roads ($5.39 million)

Roads include local roads, car parks, footpaths, bike paths, bridges and culverts, declared main roads, traffic devices, street lighting and traffic signals.

For the 2013/14 year, $5.39 million will be expended on road projects. The more significant projects include local road reconstructions ($1.80 million), federally funded Roads to Recovery projects ($0.81 million), road resheeting ($0.80 million), road safety ($0.51 million), footpaths ($0.25 million) and Integrated Transport Plan ($0.22 million).

### 6.1.3 Drains ($1.65 million)

Drains include drains in road reserves, retarding basins and waterways.

For the 2013/14 year, $1.65 million will be expended on drainage projects. The more significant projects include road drainage replacement works ($0.87 million), Stage 1 of the Victoria Park Lake redevelopment ($0.50 million) and implementation of the Stormwater Management Plan ($0.22 million).

### 6.1.4 Open space ($3.29 million)

Open space includes parks, playing surfaces, streetscapes, playground equipment, irrigation systems, trees and public art.

For the 2013/14 year, $3.29 million will be expended on open space projects. The more significant projects include playground equipment upgrades ($0.17 million), irrigation system upgrades ($0.36 million), implementation of the Greenstreets Strategy ($0.39 million), completion of Victoria Park ($1.90 million), creek works ($0.20 million) and Arts in Public Places ($0.11 million).

### 6.1.5 Buildings ($8.34 million)

Buildings include community facilities, municipal offices, sports facilities and pavilions.

For the 2013/14 year, $8.34 million will be expended on building projects. The more significant projects include pavilion upgrades ($0.32 million), Victorian Community Facility ($1.20 million), redevelopment of the City Children's Centre ($0.25 million), construction of a Velodrome and State Bowls Centre at Victoria Park ($4.00 million) and completion of the Block Arcade redevelopment ($0.97 million).

### 6.1.6 Plant, equipment and other ($4.84 million)

Plant, equipment and other includes information technology, motor vehicles and plant and library product purchases.

For the 2013/14 year, $4.84 million will be expended on plant, equipment and other projects. The more significant projects include ongoing cyclical replacement of the plant and vehicle fleet ($3.02 million), upgrade and replacement of information technology ($1.32 million) and library material purchases ($0.50 million).

### 6.1.7 Feasibility studies ($0.09 million)

For the 2013/14 year, $0.09 million will be expended on a feasibility study. This is a new initiative of Council and relates to a concept plan for the development of the Victorian Library.

### 6.1.8 Asset renewal ($17.45 million), new assets ($9.18 million), and expansion/upgrade ($4.09 million)

A distinction is made between expenditure on new assets, expenditure on asset renewal and expansion/upgrade. Expenditure on asset renewal is expenditure on an existing asset, which improves the service potential or the life of the asset. Expenditure on new assets does not have any

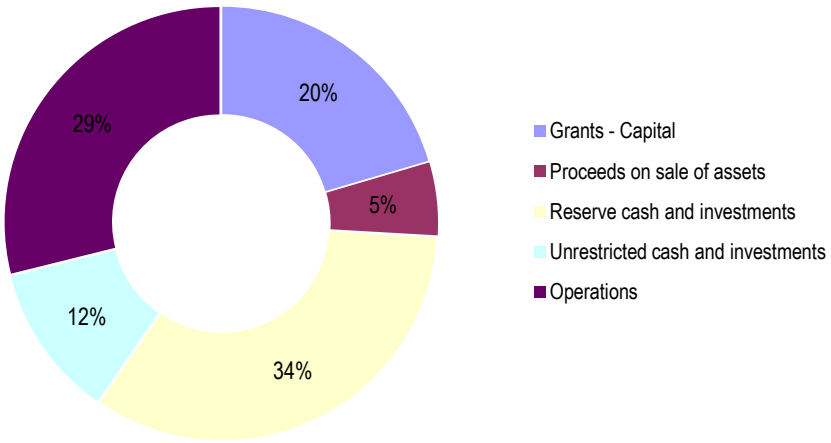
element of expansion/upgrade of existing assets but will result in an additional burden for future operation, maintenance and capital renewal.

The major projects included in the above categories, which constitute expenditure on new assets, are the Victorian Community Facility ($1.20 million), construction of a Velodrome and State Bowls Centre at Victoria Park ($4.00 million) and information technology purchases ($1.11 million). The remaining capital expenditure represents renewals and expansion/upgrades of existing assets.

## 6.2 Funding sources[9-10]

| Sources of Funding | Ref | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Variance $'000 |
|---|---|---|---|---|
| **Works carried forward** | | | | |
| ***Current year funding*** | | | | |
| Grants – Capital | 6.2.1 | 527 | 461 | (66) |
| Proceeds on sale of assets | 6.2.1 | 105 | 95 | (10) |
| | | **632** | **556** | (76) |
| ***Prior years funding*** | | | | |
| Reserve cash and investments | 6.2.1 | 5,851 | **3,752** | (2,099) |
| Unrestricted cash and investments | 6.2.1 | 1,107 | **2,817** | 1,710 |
| | | **6,958** | **6,569** | (389) |
| **Total works carried forward** | 6.2.1 | **7,590** | **7,125** | (465) |
| **New works** | | | | |
| ***Current year funding*** | | | | |
| Grants – Capital | 6.2.2 | 2,376 | 5,816 | 3,440 |
| Proceeds on sale of assets | 6.2.3 | 1,024 | 1,586 | 562 |
| Operations | 6.2.4 | 8,589 | 8,870 | 281 |
| | | **11,989** | **16,272** | 4,283 |
| ***Prior years funding*** | | | | |
| Reserve cash and investments | 6.2.5 | 1,826 | 6,596 | 4,770 |
| Unrestricted cash and investments | 6.2.6 | 1,212 | 724 | (488) |
| | | **3,038** | **7,320** | 4,282 |
| **Total new works** | | **15,027** | **23,592** | 8,565 |
| **Total funding sources** | | **22,617** | **30,717** | 8,100 |

**Budgeted total funding sources 2013/14**




Source: Appendix A

### 6.2.1 Carried forward works ($7.13 million)

At the end of each financial year there are projects which are either incomplete or not commenced due to factors including planning issues, weather delays and extended consultation. For the 2012/13 year it is forecast that $7.13 million of capital works will be incomplete and be carried forward into the 2013/14 year. Significant funding includes grants for the Municipal Offices ($0.15 million) and reserve cash and investments for the Municipal Offices ($0.75 million) and Newland Centre ($3.00 million).

### 6.2.2 Grants - Capital ($5.82 million)

Capital grants and contributions include all monies received from State, Federal and community sources for the purposes of funding the capital works program. Significant grants and contributions are budgeted to be received for the State Bowls Centre and Training Velodrome ($4.00 million), Roads to Recovery projects ($0.81 million), Victoria Park Lake ($0.43 million) and Compressed Natural Gas Conversion ($0.34 million).

### 6.2.3 Proceeds from sale of assets ($1.59 million)

Proceeds from sale of assets include motor vehicle sales in accordance with Council's fleet renewal policy of $1.59 million.

### 6.2.4 Operations ($8.87 million)

Council generates cash from its operating activities, which is used as a funding source for the capital works program. It is forecast that $8.87 million will be generated from operations to fund the 2013/14 capital works program. This amount equates to the cash generated from operating activities of $15.49 million as set out in section 5. 'Budgeted Cash Position' adjusted for capital grants of $6.28 million and borrowing costs of $0.31 million.

### 6.2.5 Reserve cash and investments ($6.60 million)

Council has significant cash reserves, which it is currently using to fund its annual capital works program. The reserves include monies set aside for specific purposes such as Golf Course Renewal and non-specific reserves such as the Building Replacement Reserve. For 2013/14 $6.60 million will be used to fund part of the new capital works program including the landfill ($1.90 million), Victoria Civic Centre ($3.60 million), Plant Replacement ($1.00 million), Victoria Arcade ($0.87 million) and the Victoria Civic Precinct ($0.10 million). A more detailed analysis is included in Appendix A 'Statement of Investment Reserves'.

### 6.2.6 Unrestricted cash and investments ($0.72 million)

In addition to reserve investments, Council has uncommitted cash and investments which represent unrestricted cash and investments and funds preserved from the previous year mainly as a result of grants and contributions being received in advance. It is forecast that $0.72 million will be available from the 2012/13 year to fund new capital works in the 2013/14 year.

## Commentary – Analysis of capital budget

**Purpose of analysis of capital budget**

1. The purpose of the analysis of the capital budget is to provide an understanding of the broad areas where projects are planned and the key funding sources as highlighted in the Chief Executive Officer's Summary. The analysis of the capital budget should include as a minimum, an analysis of the following:
   (a) Description of the broad areas of proposed capital works
   (b) Funding sources.

2. The Act also requires that the budget include a standard capital works statement. An example of such disclosure is shown in Appendix A with a more detailed analysis of the capital works program provided in Appendix C.

**Capital works**

3. This section should include an analysis of movements in the asset classes in which there will be significant activity as part of the capital works program. It should include the following:
   (a) A comparison in tabular form of the current year forecast actual, forthcoming year budget and variance for each class of asset
   (b) A graphic representation of the information provided in (a) to assist those readers who are not trained in the analysis and interpretation of financial information

## Commentary – Analysis of capital budget

(c) Classification of the capital works program between asset renewal and new assets
(d) An analysis, which briefly summarises in narrative form the key elements of the asset class including details of the major projects.

4. Contrary to accepted practice, some councils still include in their capital works program items of both a capital and an operating nature. Capital expenditure is relatively large (material) expenditure that produces economic benefits expected to last for more than 12 months. A pre determined 'threshold' may be used which indicates the level of expenditure deemed to be material in accordance with Council's policy. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and upgrade expenditures, the total project cost needs to be allocated accordingly. Maintenance expenditure, by contrast, is expenditure which maintains an asset in efficient working order, or which is required for an asset to continue to operate for its expected useful life.

**Standard statement of capital works**

5. The standard capital works statement should distinguish between capital expenditure on projects which relate to existing assets and those which relate to new assets. This information will assist the reader to assess the level of asset preservation works inherent in the budget. A large investment in a new asset can significantly reduce the portion of the capital expenditure budget spent on asset preservation.

6. Neither the Act nor the Regulations clearly define the format of the standard statement of capital works, nor the disclosure requirements for capital expenditure. The 'Standard Statements, A Guide', issued in 2004 by the Department of Planning and Community Development (formerly the Department for Victorian Communities) recommends that capital expenditure be divided into four types, and provides definitions for these four types:
   (a) Renewal
   (b) Upgrade
   (c) Expansion
   (d) New assets.

7. This Model Budget best practice guide recommends that capital expenditure be distinguished between:
   (a) Asset renewal
   (b) New assets
   (c) Asset expansion/upgrade.

   For practical purposes, capital expenditure has not been allocated between the four categories, due to the subjective nature of expansion/upgrade and the limited benefit provided by this additional disclosure.

8. A measure of the adequacy of asset renewal expenditure commonly applied in the industry is a comparison with depreciation. This is a rough measure of the rate at which the asset base is being renewed or replaced against the rate at which this asset base is being used up. This comparison should only include the expenditure on existing assets, and exclude expenditure on new assets. A more accurate measure of the adequacy of asset renewal expenditure should be developed from an integrated asset management system.

**Funding sources**

9. This section should include an analysis of the significant items making up the total funding sources for the capital works program. It should include the following:
   (a) A comparison in tabular form of the current year forecast actual, forthcoming year budget and variance for each funding source
   (b) A graphic representation of the information provided in (a) to assist those readers who are not trained in the analysis and interpretation of financial information
   (c) An analysis which briefly summarises in narrative form the key elements of the funding source.

10. A distinction should be made between funding out of the current year budget and funding out of equity through cash-backed reserves or unrestricted cash and investment funds.

# 7. Analysis of budgeted financial position[1-2]

This section analyses the movements in assets, liabilities and equity between 2012/13 and 2013/14. It also considers a number of key performance indicators.

## 7.1 Budgeted balance sheet[3-8]

| | Ref | Forecast Actual 2013 $'000 | Budget 2014 $'000 | Variance $'000 |
|---|---|---|---|---|
| **Current assets** | 7.1.1 | | | |
| Cash and cash equivalents | | 23,476 | 12,207 | (11,269) |
| Trade and other receivables | | 5,272 | 5,367 | 95 |
| Financial assets | | 6 | 6 | 0 |
| Other assets | | 1,440 | 200 | (1,240) |
| **Total current assets** | | **30,194** | **17,780** | (12,414) |
| | | | | |
| **Non-current assets** | 7.1.1 | | | |
| Trade and other receivables | | 206 | 12 | (194) |
| Property, infrastructure, plant and equipment | | 501,795 | 514,527 | 12,732 |
| **Total non-current assets** | | **502,001** | **514,539** | 12,538 |
| **Total assets** | | **532,195** | **532,319** | 124 |
| | | | | |
| **Current liabilities** | 7.1.2 | | | |
| Trade and other payables | | 5,880 | 5,880 | 0 |
| Interest-bearing loans and borrowings | | 1,161 | 1,161 | 0 |
| Provisions | | 5,510 | 5,714 | (204) |
| **Total current liabilities** | | **12,551** | **12,755** | (204) |
| | | | | |
| **Non-current liabilities** | 7.1.2 | | | |
| Interest-bearing loans and borrowings | | 4,887 | 3,726 | 1,161 |
| Provisions | | 972 | 1,008 | (36) |
| **Total non-current liabilities** | | **5,859** | **4,734** | 1,125 |
| **Total liabilities** | | **18,410** | **17,489** | 921 |
| **Net assets** | | **513,785** | **514,830** | 1,045 |
| | | | | |
| **Equity** | 7.1.4 | | | |
| Accumulated surplus | | 398,518 | 407,910 | 9,392 |
| Asset revaluation reserve | | 102,118 | 102,118 | 0 |
| Other reserves | | 13,149 | 4,802 | (8,347) |
| **Total equity** | | **513,785** | **514,830** | 1,045 |

Source: Appendix A

### 7.1.1 Current Assets ($12.41 million decrease) and Non-Current Assets ($12.54 million increase)

Cash and cash equivalents include cash and investments such as cash held in the bank and in petty cash and the value of investments in deposits or other highly liquid investments with short term maturities of three months or less. These balances are projected to decrease by $10.10 million during the year mainly to fund the capital works program during the year.

Trade and other receivables are monies owed to Council by ratepayers and others. Short term debtors are not expected to change significantly in the budget. Long term debtors (non current) relating to loans to community organisations will reduce by $0.19 million in accordance with agreed repayment terms.

Other assets includes items such as prepayments for expenses that Council has paid in advance of service delivery, inventories or stocks held for sale or consumption in Council's services and other revenues due to be received in the next 12 months. Accrued income is expected to reduce by $1.24 million as land sales which became unconditional at the end of the 2012/13 year are paid.

Property, infrastructure, plant and equipment is the largest component of Council's worth and represents the value of all the land, buildings, roads, vehicles, equipment, etc which has been built up by Council over many years. The increase in this balance is attributable to the net result of the capital works program ($29.08 million of new assets), depreciation of assets ($14.50 million) and the sale through sale of property, plant and equipment ($1.96 million).

### 7.1.2 Current Liabilities ($0.20 million increase) and Non-Current Liabilities ($1.13 million decrease)

Trade and other payables are those to whom Council owes money as at 30 June. These liabilities are budgeted to remain consistent with 2012/13 levels.

Provisions include accrued long service leave, annual leave and rostered days off owing to employees. These employee entitlements are only expected to increase marginally due to more active management of entitlements despite factoring in an increase for Collective Agreement outcomes.

Interest-bearing loans and borrowings are borrowings of Council. Council is budgeting to repay loan principal of $1.16 million over the year.

### 7.1.3 Working Capital ($12.6 million decrease)

Working capital is the excess of current assets above current liabilities. This calculation recognises that although Council has current assets, some of those assets are already committed to the future settlement of liabilities in the following 12 months, and are therefore not available for discretionary spending.

Council has also committed further current assets to specific and restricted purposes, represented by reserves, which may not yet be represented as current liabilities at 30 June.

| | Forecast Actual 2013 $'000 | Budget 2014 $'000 | Variance $'000 |
|---|---|---|---|
| **Current assets** | 30,194 | 17,780 | (12,414) |
| **Current liabilities** | 12,551 | 12,755 | (204) |
| **Working capital** | 17,643 | 5,025 | (12,618) |
| Restricted cash and investment current assets | | | |
| - Statutory reserves | (936) | (894) | 42 |
| - Discretionary reserves | (12,213) | (3,908) | 8,305 |
| **Unrestricted working capital*** | **4,494** | **223** | (4,271) |

* Unrestricted working capital may also be committed to completion of carry forward capital works. Refer to table 6.2 for funding of capital works carried forward out of prior years.

### 7.1.4 Equity ($1.05 million increase)

Total equity always equals net assets and is made up of the following components:

- Asset revaluation reserve which represents the difference between the previously recorded value of assets and their current valuations
- Other reserves that are funds that Council wishes to separately identify as being set aside to meet a specific purpose in the future and to which there is no existing liability. These amounts are transferred from the Accumulated Surplus of the Council to be separately disclosed
- Accumulated surplus which is the value of all net assets less Reserves that have accumulated over time. The increase in accumulated surplus of $1.05 million results directly from the surplus for the year.

During the year an amount of $8.35 million (net) is budgeted to be transferred from other reserves to accumulated surplus. This reflects the usage of investment cash reserves to partly fund the capital works program. This is a transfer between equity balances only and does not impact on the total balance of equity.

## 7.2 Key assumptions[9]

In preparing the Budgeted Balance Sheet for the year ending 30 June 2014 it was necessary to make a number of assumptions about assets, liabilities and equity balances. The key assumptions are as follows:

- A total of 98.5% of total rates and charges raised will be collected in the 2013/14 year (2012/13: 97.8% forecast actual)
- Trade creditors to be based on total capital and operating expenditure less written down value of assets sold, depreciation and employee costs. Payment cycle is 30 days
- Other debtors and creditors to remain consistent with 2012/13 levels
- An advance of $0.19 million to Victorian Bowls Club will be repaid in full
- Proceeds from the sale of property in 2012/13 of $1.24 million will be received in full in the 2013/14 year
- Employee entitlements to be increased by the Collective Agreement outcome offset by the impact of more active management of leave entitlements of staff
- Repayment of loan principal to be $1.16 million
- Total capital expenditure to be $21.95 million
- A total of $8.35 million to be transferred from reserves to accumulated surplus, representing the internal funding of the capital works program for the 2013/14 year.
- The council will repay its share of the unfunded superannuation liability over a period of five years[12].

### Commentary – Analysis of budgeted financial position

**Purpose of analysis of budgeted financial position**

1. The purpose of the analysis of budgeted financial position is to provide an understanding of the significant movements in assets, liabilities and equity for the forthcoming year. The analysis should include as a minimum, an analysis of significant movements in the following main balance sheet sections:
   (a) Current and non-current assets
   (b) Current and non-current liabilities
   (c) Net assets
   (d) Accumulated surplus and reserves.

2. It is essential that a budgeted balance sheet be prepared since it directly impacts on the preparation of the budgeted cash flow which is now the key tool for determining financial sustainability and estimating cash flows. Refer section 5. Budgeted Cash Position for further discussion.

**Preparation of budgeted balance sheet**

3. The budgeted balance sheet should be prepared in accordance with AASB 101 Presentation of Financial Statements. The recommended steps for preparation of a budgeted balance sheet are as follows:
   (a) Break up the assets, liabilities and equity into their significant components. For some items such as debtors, these may need to be dissected to line up with revenue and expense types in the income statement or even further into sub-types such as parking fees, home care, meals on wheels etc. The estimates should take into account expected movements in these balances between the conclusion of the current year and the budget year. Where those movements relate to cash flows, they should be reflected in the budgeted cash flow statement
   (b) For each component, insert the current year forecast actual and expected movement (increase or decrease) for the forthcoming year
   (c) The annual movements need to be based on sound assumptions regarding expected activity for the forthcoming year – borrowings based on loan repayment schedules, non-current assets based on the budgeted capital works program, rate arrears based on expected rate collection levels, trade creditors based on expenditure activity and payment terms
   (d) Determine the budgeted balance of each asset, liability and equity component based on the current year forecast actual and expected movement (increase or decrease) for the forthcoming year.

## Commentary – Analysis of budgeted financial position

4. In order to enable a meaningful comparison of the financial position against budget, it is necessary to forecast expected balance sheets on at least a quarterly basis. This will enable an effective variance analysis to be undertaken and, if necessary, corrective action to take place. Quarterly balance sheet budgets are used for financial management and quarterly reporting purposes and this level of detail is not considered necessary for the budget document. With only an annual balance sheet budget, variance analysis cannot take place until the end of the year.

**Analysis of current and non-current assets**

5. This section should include an analysis of the significant movements in assets between the current year forecast and next year budget. Changes in total cash and investments should link directly to section 5. Budgeted Cash Position. Changes in fixed assets such as land, roads, buildings etc., and also changes in the non-current portion of loans or advances. This analysis should link directly to section 6. Analysis of Capital Budget for movements in fixed asset balances.

**Analysis of current and non-current liabilities**

6. This section should include an analysis of the significant movements in liabilities between the current year forecast and next year budget. Where Council has borrowings, the total movement in current and non-current borrowings should link directly to section 10.1 'Borrowing Strategy' and section 5. 'Budgeted Cash Position (Financing Activities)'.

**Analysis of working capital**

7. This section should include an analysis of Council's working capital position, comparing current assets with current liabilities. Adjustments are made to working capital for restricted cash amounts to calculate working capital that is unrestricted or potentially available for discretionary spending. The restricted cash amounts should be drawn from section 5.2 'Restricted and unrestricted cash and investments'.

**Analysis of equity**

8. This section should include an analysis of the significant movements in equity balances between the current year forecast and next year budget. This includes changes in accumulated surplus, asset revaluation reserve or other investment reserves. The movement in investment reserves should be linked to section 10.2 'Infrastructure Strategy'.

**Key assumptions**

9. The key assumptions upon which the Budgeted Balance Sheet has been based should be included to assist the reader when comparing movements in assets, liabilities and equity between budget years.

**Accounting changes impacting on budgeted financial position**

10. The Department of Planning and Community Development (DPCD) issued guidance for the recognition and valuation of Land Under Roads by councils in July 2011 (*DPCD Circular No. 15/11)*. The guidance recommends all councils consistently apply the same recognition and valuation accounting policy, with a preference recommended for recognition of *all* land under roads controlled by councils, including assets acquired prior to 1 July 2008. This may necessitate a change in accounting policy for some councils. DPCD recommends all councils should be compliant with this guidance by the 2014/15 financial year.

    While there will not be a cash or rating impact of the change in accounting policy required to adopt this guidance, there will be an impact on the budgeted financial position as the infrastructure assets, accumulated surplus, and potentially asset revaluation reserves increase. If possible, councils should incorporate the anticipated impact of the recognition of land under roads not previously recognised into long term financial strategies and the annual budget for the anticipated year in which the council's accounting policy will change.

    The Model Financial Report 2012 issued by DPCD has provided guidance in regards to presenting the change in accounting policy.

11. The Australian Accounting Standards Board released exposure draft ED 202R "Leases" for comment and referral back to the International Accounting Standards Board in 2010. The exposure draft proposed a significant change in the accounting treatment for leases which would result in the removal of the distinction between finance leases and operating leases. Under ED 202R, all leases would be accounted for as assets and liabilities on the statement of financial position, similar to the manner in which finance leases are currently accounted for.

    ED 202R has not yet been released as an Accounting Standard. The exposure draft is scheduled for re-exposure by the International Accounting Standards Board in mid 2013. The process from exposure draft through to application date of a Standard is usually 6 – 18 months. Whilst the proposals in this exposure draft are likely to have a budgetary impact in future years, the impact of revisions to accounting for leases will not be able to be determined for the 2013-14 financial year within the budget preparation timeframe.

## Commentary – Analysis of budgeted financial position

12 LASF Defined Benefit Funding – Vision has advised that the latest 31 December 2011 actuarial investigation identified an unfunded liability of $406m excluding contributions tax in the Defined Benefit Fund. The share of this shortfall was formally advised to councils on 1 August 2012, with the call payable by 1 July 2013. The call may be paid by equal installments over 15 years with interest charged at a fixed 7.5% per annum, or as a lump sum, or by any combination of the two. The method of payment will impact on the budgeted financial position in differing ways. Many councils will include repayment of the call in their budget for the 2013/14 financial year, either in full or in part depending on the method of payment chosen. Councils should consider how they will fund any further calls in their long term financial planning.

## 8. Strategic resource plan and key financial indicators[1-2]

This section includes an extract of the adopted Strategic Resource Plan to provide information on the long term financial projections of the Council.

### 8.1 Plan development[3,8-9]

The Act requires a Strategic Resource Plan to be prepared covering both financial and non-financial resources, and including key financial indicators for at least the next four financial years to support the Council Plan.

Council has prepared a Strategic Resource Plan (SRP) for the four years 2013/14 to 2016/17 as part of its ongoing financial planning to assist in adopting a budget within a longer term framework. The SRP takes the strategic objectives and strategies as specified in the Council Plan and expresses them in financial terms for the next four years.

The key objective, which underlines the development of the SRP, is financial sustainability in the medium to long term, while still achieving Council's strategic objectives as specified in the Council Plan. The key financial objectives, which underpin the SRP, are:

- Maintain existing service levels
- Achieve a breakeven operating result within five to six years
- Maintain a capital expenditure program of at least $16 million per annum
- Achieve a balanced budget on a cash basis.

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

- Prudently manage financial risks relating to debt, assets and liabilities
- Provide reasonable stability in the level of rate burden
- Consider the financial effects of Council decisions on future generations
- Provide full, accurate and timely disclosure of financial information.

The SRP is updated annually through a rigorous process of consultation with Council service providers followed by a detailed sensitivity analysis to achieve the key financial objectives.

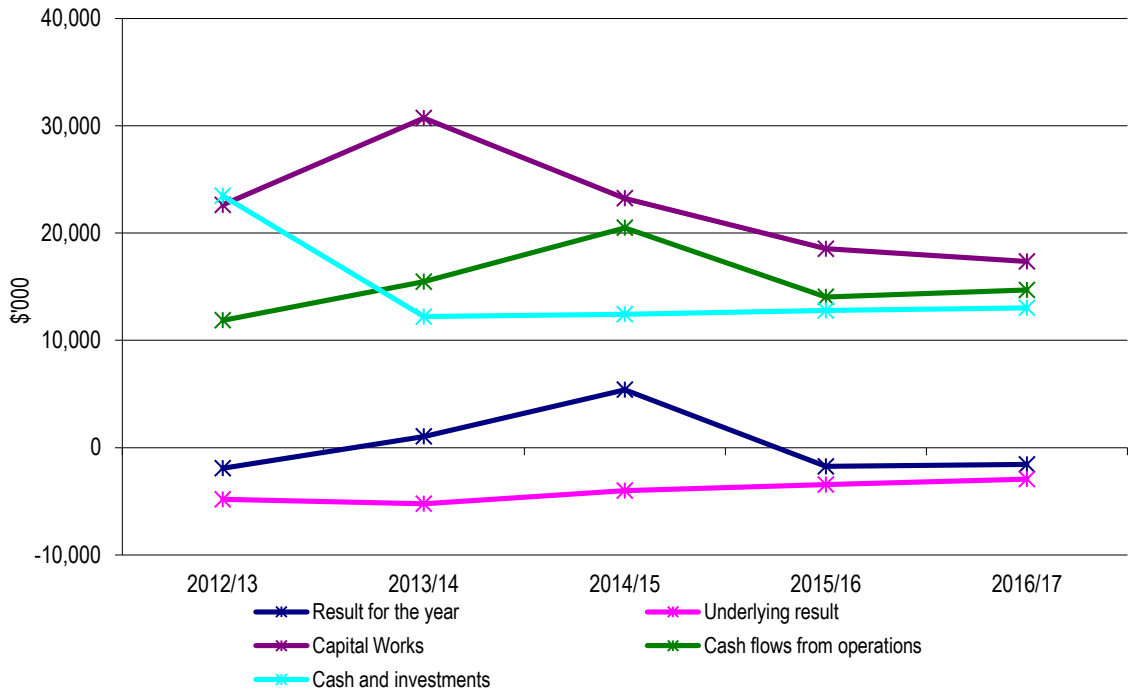
### 8.2 Financial resources[4-5]

The following table summarises the key financial results for the next four years as set out in the SRP for years 2013/14 to 2016/17. Appendix A includes a more detailed analysis of the financial resources to be used over the four year period.

| Indicator | Forecast Actual 2012/13 $'000 | Budget 2013/14 $'000 | Strategic Resource Plan Projections 2014/15 $'000 | 2015/16 $'000 | 2016/17 $'000 | Trend +/o/- |
|---|---|---|---|---|---|---|
| Surplus/(deficit) for the year | (1,922) | 1,045 | 5,398 | (1,754) | (1,570) | - |
| Underlying result | (4,825) | (5,232) | (4,009) | (3,448) | (2,937) | + |
| Cash and investments | 23,476 | 12,207 | 12,428 | 12,776 | 13,028 | o |
| Cash flow from operations | 11,872 | 15,459 | 20,492 | 14,052 | 14,687 | - |
| Capital works | 22,617 | 30,717 | 23,242 | 18,530 | 17,349 | - |

Key to Forecast Trend:
+ Forecasts improvement in Council's financial performance/financial position indicator
o Forecasts that Council's financial performance/financial position indicator will be steady
- Forecasts deterioration in Council's financial performance/financial position indicator

The following graph shows the general financial indicators over the four year period.




The key outcomes of the SRP are as follows:

- **Financial sustainability (section 5)** - Cash and investments is forecast to increase marginally over the four year period from $12.20 million to $13.03 million, which indicates a balanced budget on a cash basis in each year
- **Rating levels (section 9)** – Modest rate increases are forecast over the four years at an average of 3.9%, well below that expected of comparable councils
- **Service delivery strategy (section 10)** – Service levels have been maintained throughout the four year period. Despite this, operating surpluses are forecast in years 2013/14 and 2014/15 as a result of significant capital grant revenue being received to fund the annual capital works program. Years 2015/16 to 2016/17 forecast reducing operating deficits with a view to breaking even. However, excluding the effects of non-operating items such as capital contributions, the underlying result is a deficit reducing over the four year period. The underlying result is a measure of financial sustainability and is an important measure as once-off items can often mask the operating result
- **Borrowing strategy (section 10)** – Borrowings are forecast to reduce from $4.90 million to $3.28 million over the four year period. This includes new borrowings of $2.00 million in 2015/16
- **Infrastructure strategy (section 10)** - Capital expenditure over the four year period will total $89.84 million at an average of $22.46 million. Excluding the Lawn Bowls and Velodrome works, the average is $18.40 million.

## 8.3 Key financial indicators[6-7]

The following table highlights Council's current and projected performance across a range of key financial indicators (KFIs). KFIs provide a useful analysis of Council's financial position and performance and should be used in the context of the organisation's objectives.

| Indicator | Notes | Forecast Actual 2012/13 | Budget 2013/14 | Strategic Resource Plan Projections 2014/15 | 2015/16 | 2016/17 | Trend +/o/- |
|---|---|---|---|---|---|---|---|
| ***Financial performance*** | | | | | | | |
| Underlying result/Underlying rev | 1 | (6.9%) | (7.3) | (5.4) | (4.5) | (3.7) | + |
| Expenses/Assessment | | $1,862 | 1,904 | 1,936 | 1,979 | 2,031 | + |
| Rate revenue/Underlying revenue | 2 | 59.1% | 61.0 | 62.4 | 63.4 | 64.1 | - |
| Rate revenue/Assessment | | $1,030 | 1,081 | 1,145 | 1,200 | 1,256 | + |
| Debt servicing/Total revenue | | 0.5% | 0.5 | 0.4 | 0.3 | 0.5 | o |
| Debt servicing &redemption/Rate revenue | | 3.7% | 3.4 | 3.0 | 3.5 | 3.2 | - |
| Grants/Total revenue | | 20.9% | 19.5 | 17.1 | 16.0 | 17.2 | - |
| Fees and charges/Total revenue | | 13.2% | 13.3 | 12.5 | 13.5 | 13.4 | o |
| ***Financial position*** | | | | | | | |
| Indebtedness/Rate revenue | 3 | 42.3% | 40.2 | 35.8 | 36.5 | 32.3 | + |
| Indebtedness/ Realisable Assets | | 13.0% | 13.1 | 13.0 | 13.0 | 13.0 | - |
| Underlying result/Total assets | | (0.9%) | (0.9) | (0.7) | (0.6) | (0.6) | + |
| Net realisable assets/Assessment | | $12,845 | 12,807 | 12,877 | 12,770 | 12,669 | - |
| Current assets/Current liabilities | 4 | 240.5% | 139.4 | 139.7 | 139.6 | 139.7 | o |
| Total liabilities/Assessment | | $324 | 306 | 290 | 309 | 290 | + |
| ***Capital expenditure ($'000)*** | | | | | | | |
| Capital works | | $22,617 | 30,717 | 23,242 | 18,530 | 17,349 | - |
| - Asset renewal | | $12,225 | 17,454 | 15,928 | 13,145 | 13,560 | - |
| - New assets | | $6,850 | 9,176 | 5,767 | 3,296 | 2,791 | - |
| - Asset expansion/upgrade | | $3,542 | 4,087 | 1,547 | 2,089 | 998 | - |
| Cash op act/Net capital outlays | 5 | 78.3% | 59.5 | 107.5 | 96.5 | 111.0 | + |
| Capital works/Rate revenue | | 54.9% | 70.7 | 50.2 | 38.0 | 33.8 | - |
| Asset renewal/Total depreciation | 6 | 87.1% | 120.4 | 104.9 | 83.4 | 83.3 | - |

Key to Forecast Trend:
+ Forecasts improvement in Council's financial performance/financial position indicator
o Forecasts that Council's financial performance/financial position indicator will be steady
- Forecasts deterioration in Council's financial performance/financial position indicator

### Notes to indicators

***1 Underlying result*** - Improvement in financial performance expected over the period, although continued losses means reliance on Council's cash reserves or increased debt to maintain services.

***2 Rate revenue/Underlying revenue*** - Reflects extent of reliance on rate revenues to fund all of Council's on-going services. Trend indicates Council will become more reliant on rate revenue compared to all other revenue sources.

***3 Indebtedness/Rate revenue*** - Trend indicates Council's reducing reliance on debt against its annual rate revenue through redemption of long term debt.

***4 Current Assets/Current Liabilities*** – Working capital is forecast to decrease significantly in 2013/14 year due to a run down in cash reserves to fund the capital program. The trend in latter years is to remain steady at an acceptable level.

***5 Cash Op Act/Net Capital outlays*** - Except for the 2013/14 year budget trend indicates Council expects to be able to service its capital works expenses from cash generated from operating activities, rather than relying on its existing cash reserves or further borrowings.

***6 Asset renewal/Total depreciation*** - This percentage indicates the extent of Council's renewals against its depreciation charge (an indication of the decline in value of its existing capital assets). A percentage greater than 100 indicates Council is maintaining its existing assets, while a percentage less than 100 means its assets are deteriorating faster than they are being renewed and future capital expenditure will be required to renew assets.

## 8.4 Non-financial resources[10]

In addition to the financial resources to be consumed over the planning period, Council will also consume non-financial resources, in particular human resources. The following table summarises the non-financial resources for the next four years.

| | Forecast Actual | Budget | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| Indicator | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Employee costs ($'000) | 35,367 | 34,091 | 36,655 | 37,711 | 38,892 |
| Employee numbers | 831 | 809 | 855 | 879 | 904 |

### Commentary – Strategic resource plan and key financial indicators

**Purpose of the strategic resource plan**

1. An extract of the strategic resource plan (SRP) is included in the budget report to provide the reader with information about the long term sustainability of the Council. The SRP shows how the budget for the forthcoming year fits within the long term planning framework and demonstrates the linkage with the Council Plan strategic objectives, strategies and desired outcomes. The SRP should include as a minimum, the following main sections:
   (a) Plan development
   (b) Financial resources
   (c) Financial indicators
   (d) Non-financial resources.

2. The Act requires that councils prepare a SRP which is a plan of the resources required to achieve the strategic objectives. It must be prepared for at least four years and contain standard statements and statements describing the required non-financial resources including human resources. An example of such disclosure is shown in Appendix A.

**Plan development**

3. This section should include an explanation of the purpose of the SRP, the manner in which it was developed and the timeframe under which the SRP is to operate. Ideally the SRP should cover a minimum 4 year horizon and also include a discussion of the objectives and the consequences of failing to achieve the SRP.

**Financial resources**

4. A key component of the SRP development section will be the financial outcomes of the SRP over the chosen time horizon. To assist the reader in understanding the financial outcomes, only key indicators should be provided with detailed statements included in an appendix. These indicators could include forecast operating results, underlying results, cash and investments and expected capital works programs. Graphical representation of the information is also useful.

5. The SRP will have been extensively used in preparing the budget for the forthcoming year. Therefore it will be important that the key outcomes of the SRP be linked to the relevant sections of the Budget where it has a budget impact. This will include:
   (a) Service delivery strategy
   (b) Rating information
   (c) Borrowing strategy
   (d) Infrastructure strategy
   (e) Financial sustainability.

## Commentary – Strategic resource plan and key financial indicators

**Financial indicators**

6. A range of other financial indicators can also be used to allow the reader to gain a better understanding of key measures such as indebtedness and liquidity which are often hidden when financial information is presented in standard statement format. The use of indicators over a four year horizon also allows trends to be assessed helping the reader to confirm the council's service delivery, infrastructure renewal, rating and debt strategies.

7. Definitions for the key components of the indicators are as follows:
   (a) Underlying result is the net surplus or deficit for the year adjusted for capital grants, non-monetary assets and other once-off adjustments
   (b) Capital outlays is the total cash outflows pertaining to capital expenditure
   (c) Total cash outflows is the total of all cash outflows included in operating, financing and investing activities
   (d) Debt servicing is the financing costs associated with borrowings such as interest and bank charges
   (e) Working capital (current assets/current liabilities) is a general measure of the organisation's liquidity and its ability to meet its commitments as and when they fall due. An alternative measure is to reduce the long service leave that is shown as a current liability to that which is expected to be paid in the next twelve months rather than where there is an unconditional entitlement. This will have the effect of improving the working capital ratio and is considered to be a better indication of liquidity as it is unlikely that all employees will take their entitlement when it falls due.

   It is noted that some of the indicators listed in section 8.3 are similar to the sustainability indicators determined by the Victorian Auditor General in his annual report on local government audits, although calculated slightly differently or with different assumptions. For example, the definition above of underlying result differs from the underlying result in the report "Local Government: Results of the 2011-12 Audits" issued in November 2012 which included capital contributions as part of the underlying result. In this Guide, capital contributions are excluded from the definition on the basis that the revenue is not tied, is received for capital expenditure and is fluctuating in nature meaning that the operating result can move from a deficit to surplus from year to year depending on the level of contributions received.

   Other sustainability indicators included in the Victorian Auditor general report include:
   - Self financing: Net operating cash flows / underlying revenue
   - Indebtedness: Non-current liabilities / own-sourced revenue
   - Capital replacement: Capital expenditure / depreciation
   - Renewal gap: renewal upgrade expenditure / depreciation

**Preparation of a strategic resource plan**

8. The SRP is a separate document to the annual budget and sets the future financial direction of the Council. Longer term planning is essential in ensuring that an organisation remains financially sustainable in the long term. The annual budget should be consistent with the first projected year of the SRP.

9. The most common technique used in the commercial sector is the 'Three Way Budgeting Methodology'. This methodology involves the linking of the Standard Statements (Income Statement, Balance Sheet and Cash Flow Statement) to produce forecast financial statements based on assumptions about future movements in key revenues, expenses, assets and liabilities. Through the use of an integrated model, a 'three way budget' can be developed to facilitate a more strategic planning approach to long term financial planning. This model would include 'what if' analysis capabilities.

10. Where possible, longer term planning should incorporate the estimated impact of planned changes in accounting policies that will have a budgeting and financial reporting impact, whether due to a voluntary change by council to improve financial reporting, or a change in Australian Accounting Standards. Long term financial planning should also consider known or likely changes in budget items over the planning period (eg. increase in superannuation guarantee to 12% by 2019/20, commencing in 2013/14).

**Non-financial resources**

11. This section should include details of the non-financial resources to be consumed as part of the SRP in achieving the Council Plan. The model budget provides details of the human resources that will be required in summary form described in both monetary terms and numbers. Examples of other non-financial resources that could be included are:
    (a) Management of physical assets
    (b) Information systems and processes.

# 9. Rating information[1]

This section contains information on Council's past and foreshadowed rating levels along with Council's rating structure and the impact of changes in property valuations.

## 9.1 Rating context[2]

In developing the Strategic Resource Plan (referred to in Section 8.), rates and charges were identified as an important source of revenue, accounting for 57% of the total revenue received by Council annually. Planning for future rate increases has therefore been an important component of the Strategic Resource Planning process. The level of required rates and charges has been considered in this context, with reference to Council's other sources of income and the planned expenditure on services and works to be undertaken for the Victorian community.

However, it has also been necessary to balance the importance of rate revenue as a funding source with community sensitivity to increases, particularly recent changes in property valuations and subsequently rates for some properties in the municipality. To ensure that deliberations about future rate increases have been made on an informed basis, comparisons of historical rate increases were made between Council and other similar sized councils. The following table shows a comparison of the last five years and the average rates per capita for the 2012/13 year.

| Year | Victorian City Council | Average Large Council |
|---|---|---|
| 2008/09 | 4.5% | 5.0% |
| 2009/10 | 4.0% | 4.8% |
| 2010/11 | 4.5% | 4.8% |
| 2011/12 | 4.5% | 5.2% |
| 2012/13 | 5.0% | 5.7% |
| **Average increase** | **4.5%** | **5.1%** |
| **Average per capita 2012/13** | **$516** | **$576** |

Source: Council's strategic resource plan 2013/14 to 2015/16

The table indicates that over the past five years Council's rate increases have been 0.6% lower than the average of other comparative councils and the average rate per capita was $60 lower than the average of comparative councils in 2012/13.

## 9.2 Current year rate increase[3]

It is predicted that the 2013/14 operating position will be significantly impacted by wages growth and reductions in government funding. It will therefore be necessary to achieve future revenue growth while containing costs in order to achieve an almost breakeven operating position by 2016/17 as set out in the Strategic Resource Plan. The $9.00 million contribution from operations toward capital investment for the 2012/13 year is also much less than the desired level of $14.50 million and therefore, unless it can be increased, it will be difficult to maintain robust capital works programs in the future.

In order to achieve these objectives while maintaining service levels and a strong capital expenditure program, general rates will increase by a modest 3.9% in 2013/14 raising a total rate of $43.46 million, including $0.43 million generated from supplementary rates. The following table sets out future proposed rate increases and total rates to be raised, based on the forecast financial position of Council as at 30 June 2013.

| Year | Rate Increase % | Total Rates Raised $'000 |
|---|---|---|
| 2012/13 | 5.00 | 41,195 |
| 2013/14 | 3.90 | 43,457 |
| 2014/15 | 5.00 | 46,273 |
| 2015/16 | 3.50 | 48,725 |
| 2016/17 | 3.50 | 51,263 |

## 9.3 Rating structure[4-7]

Council has established a rating structure which is comprised of three key elements. These are:

- Property values, which form the central basis of rating under the Local Government Act 1989
- A 'user pays' component to reflect usage of certain services provided by Council
- A fixed municipal charge per property to cover some of the administrative costs of the Council.

Striking a proper balance between these elements provides equity in the distribution of the rate burden across residents.

Council makes a further distinction within the property value component of rates based on the purpose for which the property is used, that is, whether the property is used for residential or commercial purposes. This distinction is based on the concept that business should pay a fair and equitable contribution to rates, taking into account the benefits those commercial properties derive from the local community.

Having reviewed the various valuation bases for determining the property value component of rates, Council has determined to apply a Capital Improved Value (CIV) basis on the grounds that it provides the most equitable distribution of rates across the municipality. There are currently no plans to change that basis, but Council does review its rating structure every four years.

The existing rating structure comprises two differential rates (residential and commercial), and a rate concession for recreational land. These rates are structured in accordance with the requirements of Section 161 'Differential Rates' of the Act. Under the Cultural and Recreational Lands Act 1963, provision is made for a Council to grant a rating concession to any 'recreational lands' which meet the test of being 'rateable land' under the Act. The commercial rate is set at 175% of the residential rate and the rate concession for recreational land is set at 50% of the commercial rate. Council also levies a municipal charge, a kerbside collection charge and a recycling charge as allowed under the Act.

The following table summarises the rates to be determined for the 2013/14 year. A more detailed analysis of the rates to be raised is contained in Appendix B 'Statutory Disclosures'.

| Rate type | How applied | 2012/13 | 2013/14 |
|---|---|---|---|
| Residential rates | Cents in $ of CIV | 0.246871 | 0.256499 |
| Commercial rates | Cents in $ of CIV | 0.432172 | 0.449027 |
| Recreational rates | Cents in $ of CIV | 0.216086 | 0.224513 |
| Municipal charge | $ per property | $105 | $110 |
| Kerbside collection charge | $ per property | $77 | $80 |
| Recycling charge | $ per property | $19 | $20 |

Council has adopted a formal *Rating Strategy* that contains expanded information on Council's rating structure and the reasons behind its choices in applying the rating mechanisms it has used.

## 9.4 General revaluation of properties[8-9]

[Note: This section 9.4 contains additional information that can be disclosed in the budget year following a general revaluation of properties taking place. The next such year will be the 2014/15 budget.]

During the 2011/12 year, a revaluation of all properties within the municipality was carried out and first applied from 1 January 2012 for the 2012/13 year. The outcome of the general revaluation has been a significant change in property valuations throughout the municipality. Overall, property valuations across the municipal district have increased by 37%. Of this increase, residential properties have increased by 43% and business properties by 5%.

The following table summarises the valuation changes between the 2010 and 2012 general revaluations for residential properties by suburb, together with the rating changes between the 2011/12 and 2012/13 years based on a 3.9% average rate increase and the valuation movements listed.

| Suburb | Valuation Change (Decrease) | Rating Change (Decrease) |
|---|---|---|
| Alphonse | 30% | 3% |
| Bundorn | 39% | 16% |
| Fairley | 36% | 6% |
| Kingsville | 58% | 15% |
| Northville | 42% | 8% |
| Victory | 45% | 8% |
| Restville | 39% | 7% |
| Thornley | 57% | 14% |
| **Average residential** | **43%** | **13%** |
| **Average business** | **5%** | **(7)%** |

In deliberating over the setting of the differential rate structure for the 2012/13 year, Council has been mindful of the greater increase in residential property valuations compared to those in the business sector. If no changes were made to the rate differential, the change in property values would result in an overall increase of 13% in residential rates and a 7% reduction in business rates for the 2012/13 year.

In view of the outcomes of the general revaluation of all properties within the Council's municipal district during the 2011/12 year, Council has chosen not to make any changes to the existing rate differential. Therefore, in aggregate total rates and charges will increase by 3.9% compared to 2011/12.

### Commentary – Rating information

**Purpose of rating information**

1. The purpose of the rating information section is to provide the reader with a summary of how the rating structure has been established and how the quantum of rate change (increase or decrease) has been determined. The amount of the rate increase is a key outcome for the majority of stakeholders and therefore this section is as much political as it is financial in its analysis of the rate change and its impact. The information should summarise key elements of the council's rating approach and include as a minimum, the following main sections:
   (a) Rating context
   (b) Current year rate increase
   (c) Rating structure.
   The information should be drawn from the council's adopted Rating Strategy where applicable.

**Rating context**

2. This section sets out the longer term philosophy and framework within which the current year rate charge is set. It is important for the reader to see that the budgeted rate increase is part of the Long Term

## Commentary – Rating information

Financial Plan, which enables the Council Plan objectives to be achieved, while remaining financially sustainable. This section should highlight key contextual information regarding the council's rating approach. This section can be presented in three ways: looking forward, looking backward or a combination of both, depending on the message to be conveyed to the reader. The inclusion of comparative rating benchmarks of other like councils and/or neighbouring councils can also assist in the preparation of this section.

**Current year rate increase**

3. This section quantifies the amount of the rate change for the forthcoming year, and any significant factors which have had an influence. It should state how any increase will be applied in the current year, for example the funding of an accelerated roads program. This section should also attempt to put the rate change in context with past and future rate changes, and references the rare change back to decisions made in preparing the Strategic Resource Plan.

**Rating structure**

4. This section sets out the structure of the rate, including the basis upon which it will be levied – Site Value (SV), Capital Improved Value (CIV) or Net Annual Value (NAV), whether there is a rating differential and details of other charges such as municipal or recycling charges that will be levied. The rate should be broken down into its component parts and each quantified in financial terms per unit of base.

5. The Regulations also require certain information about the rates and charges to be raised. An example of this and other statutory disclosures is shown in Appendix B.

6. Information on the rating structure presented in the budget report should be drawn from the Council's Rating Strategy. In considering the contents of the Rating Strategy, reference can be made to *Developing a Rating Strategy - A Guide for Councils*, issued in 2004 by the Department of Planning and Community Development (formerly the Department for Victorian Communities) in conjunction with the Municipal Association of Victoria. In addition, the Victorian Auditor-General issued a performance audit report on *Rating Practices in Local Government* in February 2013 which includes information relevant to rating strategies.

7. In January 2013 the Department of Planning and Community Development released a *Discussion Paper and Draft Ministerial Guidelines* on Differential Rates. This followed a 2012 amendment to the Local Government Act 1989 empowering the Minister for Local Government to set guidelines for the application of differential rates and to prevent councils from applying differential rates that are inconsistent with those guidelines. Councils can make submissions on the draft guidelines until 14 March 2013 and it is expected the guidelines will be finalised in advance of budgets and rates being set for the 2013/14 year. Councils should consider their application of differential rates and associated disclosures in the budget report in light of the new guidelines.

**Alternate disclosure for general revaluation of properties**

8. It is a requirement of the Valuations of Land Act 1960, that all rateable properties within a municipality be revalued every two years. At the time of each general revaluation it will be necessary to determine the effects of any movements in property values on the total rate to be raised and accordingly the rate per each dollar of Capital Improved Value (CIV). The outcome of the general revaluation and its impact on property values and rates should be outlined in the rating strategy in the revaluation year.

9. An example of such additional disclosure in a general revaluation year is shown in section 9.4 'General Revaluation of Properties'. This Guide recommends that the disclosures in section 9.4 be included in the budget year following a general revaluation of properties taking place.

# 10. Other strategies[1]

This section sets out summaries of the strategies that have been developed and incorporated into the Strategic Resource Plan including borrowings, infrastructure and service delivery.

## 10.1 Borrowings[2-5]

In developing the Strategic Resource Plan (SRP) (see Section 8), borrowings was identified as an important funding source for capital works programs. In the past, Council has borrowed strongly to finance large infrastructure projects and since then has been in a phase of debt reduction. This has resulted in a reduction in debt servicing costs, but has meant that cash and investment reserves have been used as an alternate funding source to maintain robust capital works programs. With Council reserves now forecast to be $13.10 million at 30 June 2013 and a further significant reduction in 2013/14 to complete current infrastructure works in progress, it has been necessary to reconsider the issue of borrowings.

The SRP includes the results of an analysis of Council's debt position against both State averages and large Council averages over a number of different indicators. It also shows the results of prudential ratios used by the Victorian State Government to assess the loan capacity of local governments. The outcome of the analysis highlighted that a debt of $8.00 million could be comfortably accommodated. Council has set a target goal of reaching $4.00 million by 2013/14 to allow spare debt capacity for future major projects.

For the 2013/14 year, Council has decided not take out any new borrowings to fund the capital works program and therefore, after making loan repayments of $1.47 million, will reduce its total borrowings to $4.89 million as at 30 June 2014. However, it is likely that in future years, borrowings will be required to fund future infrastructure initiatives. The following table sets out future proposed borrowings, based on the forecast financial position of Council as at 30 June 2013.

| Year | New Borrowings $'000 | Principal Paid $'000 | Interest Paid $'000 | Balance 30 June $'000 |
|---|---|---|---|---|
| 2012/13 | 0 | 1,161 | 380 | 6,048 |
| 2013/14 | 0 | 1,161 | 312 | 4,887 |
| 2014/15 | 0 | 1,161 | 247 | 3,726 |
| 2015/16 | 2,000 | 1,161 | 410 | 4,565 |
| 2016/17 | 0 | 1,290 | 340 | 3,275 |

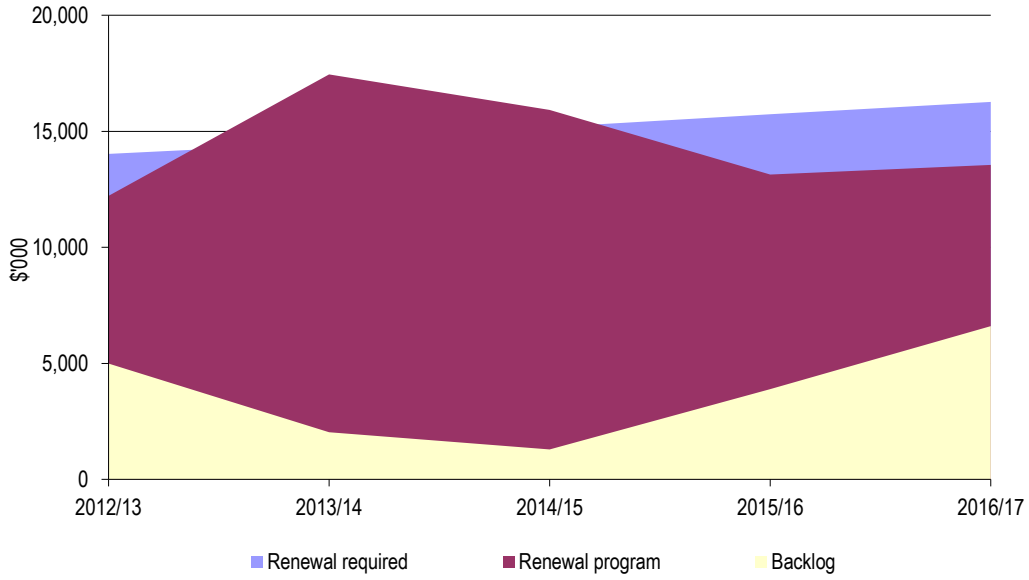
## 10.2 Infrastructure[6-13]

The Council has developed an Infrastructure Strategy based on the knowledge provided by various Asset Management Plans, which sets out the capital expenditure requirements of Council for the next 10 years by class of asset, and is a key input to the SRP. It predicts infrastructure consumption, renewal needs and considers infrastructure needs to meet future community service expectations. The Strategy has been developed through a rigorous process of consultation and evaluation. The key aspects of the process are as follows:

- Long term capital planning process which integrates with the Council Plan, Strategic Resource Plan and Annual Budget processes
- Identification of capital projects through the preparation of asset management plans
- Prioritisation of capital projects within classes on the basis of evaluation criteria
- Methodology for allocating annual funding to classes of capital projects
- Business Case template for officers to document capital project submissions.

A key objective of the Infrastructure Strategy is to maintain or renew Council's existing assets at desired condition levels. If sufficient funds are not allocated to asset renewal then Council's investment in those assets will reduce, along with the capacity to deliver services to the community.

The graph below sets out the required and actual asset renewal over the life of the current SRP and the renewal backlog.




At present, Council is similar to most municipalities in that it is presently unable to fully fund asset renewal requirements identified in the Infrastructure Strategy. While the Infrastructure Strategy is endeavouring to provide a sufficient level of annual funding to meet ongoing asset renewal needs, the above graph indicates that in later years the required asset renewal is not being addressed creating an asset renewal gap and increasing the level of backlog. Backlog is the renewal works that Council has not been able to fund over the past years and is equivalent to the accumulated asset renewal gap. In the above graph the backlog at the beginning of the five year period was $5.00 million and $6.61 million at the end of the period.

In updating the Infrastructure Strategy for the 2013/14 year, the following influences have had a significant impact:

- Reduction in the amount of cash and investment reserves to fund future capital expenditure programs
- Environmental issues at the Victoria Park Lake resulting in the bringing forward of future planned expenditure
- Availability of significant Federal funding for upgrade of roads
- Decision by the Victorian State Government to award Council with construction of a Velodrome and Lawn Bowls Centre within its municipality
- The enactment of the Road Management Act 2004 removing the defense of non-feasance on major assets such as roads
- New building regulations requiring all Child Care Centres to immediately upgrade to ensure compliance.

The following table summarises Council's forward outlook on capital expenditure including funding sources for the next four years.

| Year | Total Capital Program | Grants and Contrib's | Borrowings | Investment Reserves | Unrestricted Cash & Inv | Council Operations |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| 2012/13 | 22,617 | 4,032 | 0 | 7,677 | 2,319 | 8,589 |
| 2013/14 | 30,717 | 7,958 | 0 | 10,348 | 3,541 | 8,870 |
| 2014/15 | 23,242 | 11,097 | 0 | 1,307 | 0 | 10,838 |
| 2015/16 | 18,530 | 3,364 | 2,000 | 1,187 | 0 | 11,979 |
| 2016/17 | 17,349 | 3,077 | 0 | 1,292 | 0 | 12,980 |

In addition to using cash generated from its annual operations, borrowings and external contributions such as government grants, Council has significant cash or investment reserves that are also used to fund a variety of capital projects. These reserves are either 'statutory' or 'discretionary' cash reserves. Statutory reserves relate to cash and investments held by Council that must be expended on a specific purpose as directed by legislation or a funding body, and include contributions to car parking, drainage and public resort and recreation. Discretionary cash reserves relate to those cash and investment balances that have been set aside by Council and can be used at Council's discretion, even though they may be earmarked for a specific purpose. Appendix A includes a Statement of Reserves which is a summary of the investment reserves for the year ending 30 June 2014.

## 10.3 Service delivery[14-17]

The key objectives in Council's Strategic Resource Plan (referred to in Section 8.) which directly impact the future service delivery strategy are to maintain existing service levels and to achieve a breakeven operating result within five to six years. The Rating Information (see Section 9.) also refers to modest rate increases into the future approximating CPI plus 1%. With these key objectives as a basis, a number of internal and external influences have been identified through discussions with management which will have a significant impact on the scope and level of services to be provided over the next four years.

The general influences affecting all operating revenue and expenditure include the following:

| | 2013/14 % | 2014/15 % | 2015/16 % | 2016/17 % |
|---|---|---|---|---|
| Consumer Price Index | 2.5 | 2.5 | 2.5 | 2.5 |
| Average Weekly Earnings | 4.5 | 4.5 | 4.5 | 4.5 |
| Engineering Construction Index | 3.2 | 3.2 | 3.2 | 3.2 |
| Non-Residential Building Index | 3.5 | 3.5 | 3.5 | 3.5 |
| Rate increases | 3.9 | 3.5 | 3.5 | 3.5 |
| Property growth | 1.0 | 1.0 | 1.0 | 0.6 |
| Wages growth | 4.5 | 3.5 | 3.5 | 3.5 |
| Government funding | 2.0 | 2.0 | 2.0 | 2.0 |
| Statutory fees | 2.0 | 2.0 | 2.0 | 2.0 |
| Investment return | 5.5 | 5.0 | 4.5 | 4.5 |

As well as the general influences, there are also a number of specific influences which relate directly to service areas or activities. The most significant changes in these areas are summarised below.

**Transfer Station**
Waste tipping fees for inert waste are expected to rise further as the State Government has increased the levy payable upon disposal of waste at landfill. Following increases of $35 per tonne (almost 400%) over the last two years, the fee will rise a further $4.40 per tonne (10%) in 2013/14 and by 10% also in 2014/15. The financial impact will be to increase tipping fee costs at the Transfer Station from $0.36 million in 2012/13 to $0.46 million by 2015/16. The pricing structure currently in place for Transfer Station users will be adjusted to absorb all future cost increases.

**Residential Garbage Collection**
Waste tipping charges associated with the disposal of residential garbage and also growth in the number of tenements (1,000 pa over the five year period) are expected to result in an increase of $0.03 million per annum excluding CPI. The increased landfill levy will also increase the cost of residential garbage disposal by $0.18 million in the 2013/14 financial year.

**Kerbside Collection**
The contract for collection of recyclable waste expires on 1 July 2014. It is expected that the cost of this service will increase from $1.20 million to $1.40 million following re-tender in 2012/13. Future increases have been set at CPI.

**Aged and Disability Services**
Government funding for aged and disability services is expected to increase by approximately $0.14 million from 2013/14. This includes General Home Care, Personal Care, Respite Care and Meals.

**Valuation Services**
The Council is required to revalue all properties within the municipality every two years. The last general revaluation was carried out as at 1 January 2012 effective for the 2012/13 year and the next revaluation will be undertaken as at 1 January 2014. An allowance of $0.08 million has been made every two years commencing in 2013/14 to meet the additional cost of resources to complete the revaluation process.

**Animal Control**
The contract for the provision of animal control services has ended and is currently being renegotiated. It is expected that the cost of this service will rise from $0.36 million to $0.40 million per annum. This will be offset by predicted increases in registration fees of 5% above CPI or $0.02 million per annum in 2013/14 and 2014/15.

**Statutory Planning**
The statutory planning unit has been growing significantly over the past three years as the level of property development activity has increased. It is expected that the 2012/13 budget will be insufficient to meet all the needs of the Unit and accordingly an additional $0.05 million has been allowed from 2013/14 onwards for external support on appeals.

The service delivery outcomes measured in financial terms are shown in the following table.

| Year | Surplus (Deficit) for the year $'000 | Underlying Surplus (Deficit) $'000 | Net Service (Cost) $'000 |
|---|---|---|---|
| 2012/13 | (1,922) | (4,825) | (39,369) |
| 2013/14 | 1,045 | (5,232) | (41,967) |
| 2014/15 | 5,398 | (4,009) | (43,233) |
| 2015/16 | (1,754) | (3,448) | (44,451) |
| 2016/17 | (1,570) | (2,937) | (46,151) |

Service levels have been maintained throughout the four year period with operating surpluses forecast in years 2013/14 and 2014/15 as a result of significant capital grant revenue being received to fund the annual capital works program. Years 2015/16 to 2016/16 forecast reducing operating deficits with a view to almost breaking even by 2017/18. Excluding the effects of non-operating items such as capital contributions, the underlying result is a reducing deficit over the four year period. The net cost of the services provided to the community increase from $41.97 million to $46.15 million over the four year period.

## Commentary – Other strategies

**Purpose of other strategies**

1. The purpose of the other strategies section is to provide the reader with a summary of the other strategies that have been developed in order to prepare the strategic resource plan. The other strategies section should include as a minimum, the following main sections (there may be others that councils wish to aid and tailor for their circumstances):
   (a) Borrowings
   (b) Infrastructure
   (c) Service delivery.

**Borrowings**

2. The purpose of the borrowing strategy section is to provide the reader with a longer term view of the borrowing requirements of Council and the level of borrowings that is sustainable. It should also outline the budgeted borrowing movements for the forthcoming year including both new borrowings and repayment of existing borrowings. It is important for the reader to see that any change in borrowing levels is part of the Strategic Resource Plan, which aims to achieve the Council Plan objectives while remaining financially sustainable. This section should set out Council's policy on borrowings, including whether Council aims to be debt free by a certain date, or whether its policy is to fund particular projects through borrowings, so that costs are met by users or beneficiaries of the project. This section can be presented in three ways: looking forward, looking backward or a combination of both, depending on the message to be conveyed to the reader.

## Commentary – Other strategies

3. In considering its borrowing strategy, councils must be mindful of the principles of sound financial management set out in S.136 of the Local Government Act 1989. These principles state that councils must:

- 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 rates burden
- ensure that decisions are made and actions are taken having regard to their financial effects on future generations
- ensure full, accurate and timely disclosure of financial information relating to the council.

The Victorian Auditor General considers indebtedness as one of its financial sustainability indicators for councils, calculated as non-current liabilities / own-sourced revenue. A calculation < 40% results in a low risk rating, 40-60% equates to a medium risk, and >60% is considered a high risk.

Previous versions of this Guide have referred to prudential ratios and thresholds being considered by the Department of Planning and Community Development (DPCD) in assessing councils' proposed borrowings. These ratios are:

- Liquidity - current assets to current liabilities - 1.1:1
- Debt management - Total debt as a percentage of rate revenue - 80%
- Debt management - Debt servicing costs as a percentage of rate revenue - 5%

DPCD has now advised that it does not endorse, approve, guarantee or place arbitrary limitations upon borrowings by councils, but must report the borrowing intentions of local governments to the Department of Treasury and Finance for inclusion in the State's nominated Australian Loan Council allocation. This does not diminish accountability for sound financial management or for council decisions in respect of proposed loan borrowings.

Councils intending to undertake additional borrowings need to give regard to their own particular circumstances and the requirements of the Act, including compliance with the principles of sound financial management. Councils would also be well served by giving consideration to measures such as the financial sustainability indicators and prudential ratios.

4. A summary of the movements in borrowings (new borrowings, loan principal to be repaid, loan interest to be repaid, loan balance at end of period) should be included in the forthcoming year and at least four years future. The purpose of disclosure is to show in financial terms the long term strategy for borrowings and how the forthcoming borrowing program fits within that framework. This should be linked to the investment section of the cash flow statement that forms part of the Strategic Resource Plan.

5. The Regulations also require that the budget include the proposed total amount to be borrowed other than borrowings to refinance existing loans, the proposed total amount of loan redemption and projected debt servicing costs. An example of such disclosure is shown in Appendix B 'Statutory Disclosures'.

**Infrastructure**

6. The purpose of the infrastructure strategy section is to provide the reader with a longer term view of the capital requirements of the council and the level of capital works that is sustainable.

7. This section should include an explanation of the purpose of the strategy, the manner in which it was developed and the timeframe under which the strategy is to operate. As a minimum the strategy should show a five year horizon but a 10 or 20 year horizon is encouraged. It should also include a discussion of the objectives and the consequences of failing to achieve the strategy.

8. This section should also contain an overview of the process used by council to develop the capital works program in the forthcoming year and for future years. A 2006 Local Government Victoria publication, 'Local Government Asset Investment Guidelines', provides an appropriate framework. These guidelines are aimed at assisting councils to appropriately evaluate the key aspects of capital expenditure opportunities, prepare business cases and to prioritise them for consideration by the council and inclusion in capital work programs.

9. The Municipal Association of Victoria (MAV) introduced the 'Step Program' which encourages councils to develop asset management plans for all assets it owns or controls. The purpose of the program is to identify the future capital expenditure or asset renewal requirements for each asset to ensure they reach their planned useful lives. Asset management plans will also assist in determining the backlog (if any) for each asset, and is therefore an integral part to developing a long term infrastructure strategy.

## Commentary – Other strategies

10. This section should set out the key matters which have influenced the setting of the budgeted capital works program for the forthcoming year, including matters impacting on funding sources such as the availability of external grants and contributions, or the state of cash and investment reserves. It will also include matters which have impacted on the capital works projects to be carried out such as incomplete projects from the current year, significant overruns and savings, or unforeseen events such as collapsed drains or new building regulation requirements.

11. A summary of the value of the capital works program for the forthcoming year and future years (at least four) should be included. Its purpose is to show in financial terms the long-term strategy for capital works and how the forthcoming capital works program fits within that framework. This section should link directly to section 6. 'Analysis of Capital Budget'.

12. This section should also set out the funding sources, including cash and investments established by council for the future replacement of assets. This should be linked to the investment section of the cash flow statement that forms part of the Strategic Resource Plan.

13. Councils have traditionally maintained equity reserves to represent and monitor cash set aside for the future replacement of assets and other purposes as a method of longer term planning. By earmarking cash and investments for a future purpose and reflecting this action in their annual budgets councils have been reluctant to use these funds for other purposes. With the introduction of longer term planning models such as three-way budgeting, which allows future requirements to be documented and planned financially, the need for these equity reserves has diminished. As councils become more adept at using long term financial planning techniques the need for the maintenance of reserves will be reduced to cash assets set aside for statutory purposes only.

**Service delivery**

14. The purpose of the service delivery infrastructure strategy section is to provide the reader with a longer term view of the operational requirements of the council, and the scope and level of services that are financially sustainable.

15. This section should include an explanation of the purpose of the strategy, the manner in which it was developed and the timeframe under which the strategy is to operate. As a minimum the strategy should aim for a four year horizon. It should also include a discussion of the objectives and the consequences of failing to achieve the strategy.

16. It should set out the key influences (both internal and external), which will impact on the setting of the operational budget over the next four years. Consideration should be given to both global influences such as CPI, and more specific influences at the service or activity level.

17. It should also set out in summary form the financial outcomes of the service delivery strategy. Both the net surplus/(deficit), underlying result and net service cost should be considered.

# Appendices

The following appendices include voluntary and statutory disclosures of information which provide support for the analysis contained in sections 1 to 10 of this report.

This information has not been included in the main body of the budget report in the interests of clarity and conciseness. Council has decided that while the budget report needs to focus on the important elements of the budget and provide appropriate analysis, the detail upon which the annual budget is based should be provided in the interests of open and transparent local government.

The contents of the appendices are summarised below:

# Appendix A
# Budgeted Standard Statements[1]

This appendix presents information in regard to the Budgeted Standard Statements. The budget information for the years 2013/14 to 2016/17 has been extracted from the Strategic Resource Plan.

At the end of each financial year Council is required to report back to the community a comparison of actual financial results against these Budgeted Standard Statements and provide an explanation of significant variances. The Standard Statements together with the Performance Statement provide a clear, concise and understandable report of Council's activities for the year from both a financial and non-financial perspective particularly for those users who do not have a financial background.

The appendix includes the following budgeted information:

- Budgeted Standard Income Statement
- Budgeted Standard Balance Sheet
- Budgeted Standard Cash Flow Statement
- Budgeted Standard Capital Works Statement
- Budgeted Statement of Investment Reserves.

## Commentary – Budgeted standard statements

**Purpose of budget standard statements**

1. Section 127 of the Act requires that the Budget contain the Budgeted Standard Statements in the form and containing the matters required by the Regulations. The Budgeted Standard Statements include an Income Statement, Balance Sheet, Cash Flow Statement and Statement of Capital Works.

   The audited Standard Statements included in the Annual Report must be presented with terminology for line items *exactly* as presented in the Budgeted Standard Statements. Care must be taken in preparation of the Budgeted Standard Statements to ensure the terminology used for line items in the budget will be consistent with the line items in the financial statements prepared in accordance with accounting standards at the end of the financial year.

2. The Standard Statements are special purpose financial statements, in contrast to the general purpose annual financial statements. As the Standard Statements do not assert compliance with all accounting standard presentation requirements, councils have some limited flexibility with the presentation of Standard Statements *provided that* the Standard Statements do not contradict or undermine the credibility of the audited Annual Financial Statements with which they are published.

   In this model, the Budgeted Standard Statements have been disclosed (where possible) in accordance with applicable Accounting Standards to achieve direct comparability between the Annual Budget and Annual Report.

   Councils should note that the distinction between special purpose and general purpose financial statements only relates to presentation. The Standard Statements should be prepared in accordance with the recognition, measurement and valuation accounting policies established by the council for the preparation of the Annual Financial Statements.

   The statements shown include projections for the three years following the budget year and should be extracted from the Strategic Resource Plan to show the reader future financial trends.

3. In addition to the Standard Statements required by legislation, a Statement of Investment Reserves has also been included. While not mandated, this Guide recommends that where cash backed investment reserves are maintained, a statement showing the opening and closing balances together with the transfers to and from reserves should be disclosed. It is expected that the need for such a statement will diminish over time as councils move to more sophisticated planning methods for future asset replacement.

## Budgeted Standard Income Statement

For the four years ending 30 June 2017

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2012/13 | **2013/14** | 2014/15 | 2015/16 | 2016/17 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| **Income** | | | | | |
| Rates and charges | 41,195 | **43,457** | 46,273 | 48,725 | 51,263 |
| Statutory fees and fines | 2,445 | **2,690** | 2,818 | 2,785 | 2,834 |
| User fees | 7,198 | **7,680** | 7,828 | 8,004 | 8,184 |
| Contributions - cash | 661 | **51** | 471 | 370 | 350 |
| Contributions - non-monetary assets | 0 | **0** | 0 | 0 | 0 |
| Grants - Operating (recurrent) | 13,573 | **12,617** | 12,554 | 12,646 | 12,837 |
| Grants - Operating (non-recurrent) | 950 | **1,000** | 1,050 | 1,100 | 1,150 |
| Grants - Capital (recurrent) | 810 | **830** | 850 | 870 | 890 |
| Grants - Capital (non-recurrent) | 2,093 | **5,447** | 8,557 | 824 | 477 |
| Net gain on disposal of property, infrastructure, plant and equipment | 823 | **539** | 479 | 488 | 497 |
| Other income | 2,823 | **3,263** | 2,734 | 2,782 | 2,830 |
| Total income | 72,571 | **77,574** | 83,614 | 78,594 | 81,312 |
| | | | | | |
| **Expenses** | | | | | |
| Employee costs | 31,541 | **34,091** | 35,367 | 36,655 | 37,711 |
| Materials and services | 22,937 | **22,107** | 21,847 | 21,999 | 22,810 |
| Bad and doubtful debts | 314 | **340** | 348 | 356 | 364 |
| Depreciation and amortisation | 14,034 | **14,500** | 15,187 | 15,744 | 16,274 |
| Finance costs | 380 | **312** | 247 | 410 | 340 |
| Other expenses | 5,287 | **5,179** | 5,220 | 5,184 | 5,383 |
| Total expenses | 74,493 | **76,529** | 78,216 | 80,348 | 82,882 |
| **Surplus (deficit) for the year** | (1,922) | **1,045** | 5,398 | (1,754) | (1,570) |
| | | | | | |
| **Other comprehensive income** | | | | | |
| Other | 0 | **0** | 0 | 0 | 0 |
| **Comprehensive result** | (1,922) | **1,045** | 5,398 | (1,754) | (1,570) |

## Budgeted Standard Income Statement (Alternative format)[1-5]

For the four years ending 30 June 2017

| | Forecast Actual 2012/13 $'000 | **Budget 2013/14 $'000** | Strategic Resource Plan Projections 2014/15 $'000 | 2015/16 $'000 | 2016/17 $'000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Rates and charges | 41,195 | **43,457** | 46,273 | 48,725 | 51,263 |
| Statutory fees and fines | 2,445 | **2,690** | 2,818 | 2,785 | 2,834 |
| User fees | 7,198 | **7,680** | 7,828 | 8,004 | 8,184 |
| Contributions - cash | 661 | **51** | 471 | 370 | 350 |
| Grants - operating (recurrent) | 13,573 | **12,617** | 12,554 | 12,646 | 12,837 |
| Grants - operating (non-recurrent) | 950 | **1,000** | 1,050 | 1,100 | 1,150 |
| Net gain on disposal of property, infrastructure, plant and equipment | 823 | **538** | 479 | 488 | 497 |
| Other income | 2,823 | **3,263** | 2,734 | 2,782 | 2,830 |
| Total income before capital grants and non-monetary contributions | 69,668 | **71,296** | 74,207 | 76,900 | 79,945 |
| **Expenses** | | | | | |
| Employee costs | 31,541 | **34,091** | 35,367 | 36,655 | 37,711 |
| Materials and services | 22,937 | **22,106** | 21,848 | 21,999 | 22,810 |
| Bad and doubtful debts | 314 | **340** | 348 | 356 | 364 |
| Depreciation and amortisation | 14,034 | **14,500** | 15,187 | 15,744 | 16,274 |
| Finance costs | 380 | **312** | 247 | 410 | 340 |
| Other expenses | 5,287 | **5,179** | 5,220 | 5,184 | 5,383 |
| Total expenses | 74,493 | **76,528** | 78,216 | 80,348 | 82,882 |
| **Net (deficit) before capital grants and non-monetary contributions** | (4,825) | **(5,232)** | (4,009) | (3,448) | (2,937) |
| Grants – capital (recurrent) | 810 | **830** | 850 | 870 | 890 |
| Grants – capital (non-recurrent) | 2,093 | **5,447** | 8,557 | 824 | 477 |
| Contributions - non-monetary assets | 823 | 539 | 479 | 488 | 497 |
| **Surplus (deficit) for the year** | (1,922) | **1,045** | 5,398 | (1,754) | (1,570) |
| **Other comprehensive income** | 0 | **0** | 0 | 0 | 0 |
| Other | | | | | |
| **Comprehensive result** | (1,922) | **1,045** | 5,398 | (1,754) | (1,570) |

## Commentary – Budgeted standard income statement

**Alternative format**

1. This is an alternative presentation of the budgeted standard income statement which calculates a surplus or deficit before capital grants and non-monetary contributions, and presents this as a sub-total within the Statement.

2. In each financial period, councils will face challenges in achieving budgeted results and will record transactions that are considered once-off, abnormal, non-recurring or do not otherwise present the ongoing sustainable operations. Councils have the opportunity in the introduction, commentary and explanations that accompany the Budgeted Standard Statements presented at the beginning of the financial period and the Standard Statements reported at the end of the financial period to highlight these variances and transactions.

3. The descriptions of sub-totals for “Total income before capital grants and non-monetary contributions” and “Net (deficit) before capital grants and non-monetary contributions” in the alternative format have been carefully worded and specifically described so as to provide additional information in the Budgeted Standard Statements, yet not suggest a result for the year that is contradictory to the general purpose Annual Financial Statements.

4. This alternative presentation allows the impact of distorting or once-off items on the net surplus or deficit for the year to be measured and reported. Items which might be included below the 'net deficit before ...' sub-total on the alternative format budgeted standard income statement include capital grants and contributions of non-monetary assets. Capital grants and contributions of non-monetary assets are recorded as income but are reflected in assets that are capitalised on Council's balance sheet and depreciated in later years. It is important to note that when assessing what is to be included below the sub-total that this will vary from council to council depending on individual circumstances.

5. The alternative format in this Guide deliberately presents the items in such a way as to conclude with the 'comprehensive result', consistent with the bottom line that will be presented on the Council's income statement included within the general purpose Annual Financial Statements. Alternative format standard income statements that conclude with a different total, or which include other information - for example, which attempt to reconcile the income statement result to cash outcomes or a 'rate determination' result - are not recommended. Such formats may contradict or undermine the credibility of the audited Annual Financial Statements with which they are published in the Annual Report.

**Reporting guidance**

6. As a report to the community, the standard statements comparing actual performance to budget may be more readable and more relevant to many users that annual financial statements which compare to prior year.

   The Act requires all variances against budget to be identified in the reported Standard Statements, and explanations provided for material variances. This is the minimum reporting requirement for Standard Statements. Most councils nominate a quantified materiality threshold of +/- 10% variance from budget and provide commentary notes only to those material variations.

   Councils may wish to consider using the standard statements to more broadly acquit against the budget, rather than simply focusing on variances of a particular threshold. Any commentary included in the notes must be supported and auditable.

7. The Standard Statements reported at year end are required to be presented together with an explanation of the basis of preparation of the statements. The basis of preparation provides the context for users and informs the reader that the Statements are a special purpose financial report. VAGO has requested all councils to insert a heading of “Note 1” above the Basis of Preparation paragraph in the Standard Statements to facilitate reference to this paragraph in the audit opinion issued. Australian Auditing Standards require a reference to the basis of preparation where the opinion is attached to a special purpose financial report.

8. Other comprehensive income should be classified into items that will not be reclassified to surplus (deficit), such as revaluations of assets, and items that may be reclassified subsequently to surplus (deficit), such as fair value adjustments on financial assets measured at fair value.

## Budgeted Standard Balance Sheet
For the four years ending 30 June 2017

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2013 | **2014** | 2015 | 2016 | 2017 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| **Current assets** | | | | | |
| Cash and cash equivalents | 23,476 | **12,207** | 12,428 | 12,776 | 13,028 |
| Trade and other receivables | 5,272 | **5,367** | 5,467 | 5,567 | 5,667 |
| Financial assets | 6 | **6** | 6 | 6 | 6 |
| Other assets | 1,440 | **200** | 200 | 200 | 200 |
| Total current assets | 30,194 | **17,780** | 18,101 | 18,549 | 18,901 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 206 | **12** | 12 | 12 | 12 |
| Property, infrastructure, plant & equipment | 501,795 | **514,527** | 518,681 | 517,558 | 514,586 |
| Total non-current assets | 502,001 | **514,539** | 518,693 | 517,570 | 514,598 |
| Total assets | 532,195 | **532,319** | 536,794 | 536,119 | 533,499 |
| **Current liabilities** | | | | | |
| Trade and other payables | 5,880 | **5,880** | 5,880 | 5,880 | 5,880 |
| Interest-bearing loans and borrowings | 1,161 | **1,161** | 1,161 | 1,290 | 1,322 |
| Provisions | 5,510 | **5,714** | 5,917 | 6,121 | 6,326 |
| Total current liabilities | 12,551 | **12,755** | 12,958 | 13,291 | 13,528 |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 4,887 | **3,726** | 2,565 | 3,275 | 1,953 |
| Provisions | 972 | **1,008** | 1,044 | 1,081 | 1,116 |
| Total non-current liabilities | 5,859 | **4,734** | 3,609 | 4,356 | 3,069 |
| Total liabilities | 18,410 | **17,489** | 16,567 | 17,647 | 16,597 |
| Net assets | 513,785 | **514,830** | 520,227 | 518,472 | 516,902 |
| **Equity** | | | | | |
| Accumulated surplus | 398,518 | **407,910** | 413,227 | 411,392 | 409,742 |
| Asset revaluation reserve | 102,118 | **102,118** | 102,118 | 102,118 | 102,118 |
| Other reserves | 13,149 | **4,802** | 4,882 | 4,962 | 5,042 |
| Total equity | 513,785 | **514,830** | 520,227 | 518,472 | 516,902 |

## Budgeted Standard Cash Flow Statement

For the four years ending 30 June 2017

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2012/13 | **2013/14** | 2014/15 | 2015/15 | 2016/17 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| | Inflows (Outflows) | **Inflows (Outflows)** | Inflows (Outflows) | Inflows (Outflows) | Inflows (Outflows) |
| **Cash flows from operating activities** | | | | | |
| *Receipts* | | | | | |
| Rates and charges | 41,410 | **43,357** | 46,173 | 48,625 | 51,163 |
| Statutory fees and fines | 2,195 | **2,690** | 2,818 | 2,785 | 2,834 |
| User fees | 7,849 | **7,680** | 7,828 | 8,004 | 8,184 |
| Contributions - cash | 661 | **51** | 471 | 370 | 350 |
| Grants - operating | 13,313 | **13,617** | 13,604 | 13,746 | 13,987 |
| Grants - capital | 2,903 | **6,277** | 9,407 | 1,694 | 1,367 |
| Interest | 2,044 | **1,820** | 1,264 | 1,278 | 1,292 |
| Other receipts | 2,511 | **1,443** | 1,469 | 1,503 | 1,538 |
| | 72,886 | **76,935** | 83,034 | 78,005 | 80,715 |
| *Payments* | | | | | |
| Employee costs | (31,185) | **(33,841)** | (35,117) | (36,405) | (37,461) |
| Materials and consumables | (4,797) | **(4,183)** | (4,272) | (4,369) | (4,468) |
| External contracts | (15,506) | **(14,103)** | (13,667) | (13,631) | (14,250) |
| Utilities | (3,740) | **(3,820)** | (3,909) | (3,999) | (4,092) |
| Other payments | (5,786) | **(5,529)** | (5,577) | (5,549) | (5,757) |
| | (61,014) | **(61,476)** | (62,542) | (63,953) | (66,028) |
| Net cash provided by operating activities | 11,872 | **15,459** | 20,492 | 14,052 | 14,687 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, infrastructure, plant and equipment | 1,664 | **3,741** | 2,018 | 2,036 | 2,054 |
| Payments for property, infrastructure, plant and equipment | (21,007) | **(29,195)** | (20,881) | (16,169) | (14,859) |
| Repayment of loans and advances | 10 | **199** | 0 | 0 | 0 |
| Deposits | 50 | **0** | 0 | 0 | 0 |
| Net cash used in investing activities | (19,283) | **(25,255)** | (18,863) | (14,133) | (12,805) |
| **Cash flows from financing activities** | | | | | |
| Finance costs | (380) | **(312)** | (247) | (410) | (340) |
| Proceeds from borrowings | 0 | **0** | 0 | 2,000 | 0 |
| Repayment of borrowings | (1,161) | **(1,161)** | (1,161) | (1,161) | (1,290) |
| Net cash provided by (used in) financing activities | (1,541) | **(1,473)** | (1,408) | 429 | (1,630) |
| **Net decrease in cash & cash equivalents** | (8,952) | **(11,269)** | 221 | 348 | 252 |
| Cash & cash equivalents at beginning of year | 32,428 | **23,476** | 12,207 | 12,428 | 12,776 |
| **Cash & cash equivalents at end of year** | 23,476 | **12,207** | 12,428 | 12,776 | 13,028 |

## Budgeted Standard Capital Works Statement
For the four years ending 30 June 2017

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2012/13 | **2013/14** | 2014/15 | 2015/16 | 2016/17 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| **Capital works areas** | | | | | |
| Roads | 6,122 | **6,173** | 5,744 | 7,181 | 7,343 |
| Drains | 1,303 | **1,885** | 2,169 | 2,474 | 2,481 |
| Open space | 2,947 | **3,383** | 1,455 | 1,773 | 1,648 |
| Buildings | 7,887 | **13,395** | 10,123 | 3,098 | 1,931 |
| Plant, equipment & other | 4,358 | **5,791** | 3,641 | 3,899 | 3,826 |
| Feasibility studies | 0 | **90** | 110 | 105 | 120 |
| **Total capital works** | 22,617 | **30,717** | 23,242 | 18,530 | 17,349 |
| | | | | | |
| **Represented by:** | | | | | |
| Asset renewal | 12,225 | **17,454** | 15,928 | 13,145 | 13,560 |
| New assets | 6,850 | **9,176** | 5,767 | 3,296 | 2,791 |
| Asset expansion/upgrade | 3,542 | **4,087** | 1,547 | 2,089 | 998 |
| **Total capital works** | 22,617 | **30,717** | 23,242 | 18,530 | 17,349 |

## Reconciliation of net movement in property, infrastructure, plant and equipment

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2012/13 | **2013/14** | 2014/15 | 2015/16 | 2016/17 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| **Total capital works** | 22,617 | **30,717** | 23,242 | 18,530 | 17,349 |
| | | | | | |
| Asset revaluation increment | 0 | **0** | 0 | 0 | 20,000 |
| Depreciation & amortisation | (14,034) | **(14,500)** | (15,187) | (15,744) | (16,274) |
| Written down value of assets sold | (3,691) | **(3,485)** | (3,901) | (3,909) | (4,047) |
| Granted assets | 0 | **0** | 0 | 0 | 0 |
| Recognition of previously unrecognised assets | 0 | **0** | 0 | 0 | 0 |
| **Net movement in property, infrastructure, plant & equipment** | 4,892 | **12,732** | 4,154 | (1,123) | 17,028 |

## Budgeted Statement of Investment Reserves

For the four years ending 30 June 2017

| | Forecast Actual | **Budget** | Strategic Resource Plan Projections | | |
|---|---|---|---|---|---|
| | 2013 | **2014** | 2015 | 2016 | 2017 |
| | $'000 | **$'000** | $'000 | $'000 | $'000 |
| **Statutory** | | | | | |
| Car parking | 227 | **57** | 57 | 57 | 57 |
| Drainage | 126 | **10** | 10 | 10 | 10 |
| Public resort and recreation | 583 | **827** | 827 | 827 | 827 |
| Total statutory reserves | 936 | **894** | 894 | 894 | 894 |
| **Discretionary** | | | | | |
| Building replacement | 8,962 | **3,668** | 3,668 | 3,668 | 3,668 |
| Property development | 917 | **49** | 49 | 49 | 49 |
| Tip development | 1,880 | **0** | 0 | 0 | 0 |
| Plant replacement | 83 | **104** | 124 | 144 | 164 |
| Golf course | 332 | **87** | 147 | 207 | 267 |
| Visitors parks | 39 | **0** | 0 | 0 | 0 |
| Total discretionary reserves | 12,213 | **3,908** | 3,988 | 4,068 | 4,148 |
| **Total reserves** | 13,149 | **4,802** | 4,882 | 4,962 | 5,042 |

# Appendix B
# Statutory disclosures[1-3]

This appendix presents information which the Act and the Regulations require to be disclosed in the Council's annual budget.

The appendix includes the following budgeted information:

- Borrowings
- Rates and charges
- Differential rates.

## Commentary – Statutory disclosures

**Purpose of statutory disclosures**

1. The Regulations require certain information to be disclosed within the budget. The information disclosed in this appendix satisfies the requirements of the 2004 Regulations pertaining to Victorian local governments.

**Borrowings**

2. Regulation 8(a) and (b) require the disclosure of certain information pertaining to borrowings including, the total amount proposed to be borrowed for the year (other than borrowings to refinance existing loans) and the proposed total amount of debt redemption for the year.

**Rates and charges**

3. Section 127 of the Act requires the budget to contain the information the council is required to declare under section 158(1) of the Act. This section requires the disclosure of the amount which the council intends to raise by general rates, municipal charges, service rates and service charges and whether the general rates will be raised by the application of a uniform rate, differential rates (under section 161 and 161(2) or urban farm rates, farm rates or residential use rates (under section 161A and 161(2)). Regulation 8(c) sets out an extensive list of information required to be disclosed in the budget in regards to rates and charges, including:
   - (i) The proposed rate in the dollar for each type of rate to be levied
   - (ii) The estimated amount to be raised by each type of rate to be levied
   - (iii) The estimated total amount to be raised by rates
   - (iv) The proposed percentage change in the rate in the dollar for each type of rate to be levied, compared to that of the previous financial year
   - (v) The number of assessments for each type of rate to be levied compared to the previous year
   - (vi) The total number of assessments
   - (vii) The basis of valuation to be used
   - (viii) The estimated total value of land, in respect of which each type of rate is to be levied, compared with the previous year
   - (ix) The proposed municipal charge
   - (x) The proposed unit amount to be levied for each type of service rate or charge
   - (xi) The estimated amount to be raised for each type of charge compared to the previous year
   - (xii) The estimated total amount to be raised by rates and charges
   - (xiii) Any significant changes that may affect the estimated amounts to be raised.

**Differential rates**

4. Section 127 of the Act requires the budget to contain the information the council is required to declare under section 161 and 161A where it intends to declare a differential rate. That subsequent section requires the disclosure of the objectives of the differential rate and must include the following:
   - (i) A definition of the types or classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate in relation to those types or classes of land
   - (ii) An identification of the types or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in the council's municipal district), planning scheme zoning of the land, the types of buildings situated on it and any other criteria relevant to the rate
   - (iii) If there has been a change in the valuation system, any provision for relief from a rate for certain land to ease the transition for that land
   - (iv) Specify the characteristics of the land which are the criteria for declaring the differential rate.

## Commentary – Statutory disclosures

5. In additional to the above, new requirements relating to differential rates were introduced as part of the Local Government Legislation Amendment (Miscellaneous) Act 2012. These provide that:
   (i) Council must have regard to any Ministerial Guidelines before declaring a differential rate
   (ii) The Minister may make guidelines for or with respect to the objectives of differential rating and suitable uses of differential rating powers, and the types or classes of land appropriate for differential rating
   (iii) On recommendation of the Minister, the Governor in Council may by Order in Council prohibit councils from declaring differential rates on the basis of a particular type or class of land.

   In January 2013 the Department of Planning and Community Development released a *Discussion Paper and Draft Ministerial Guidelines* on Differential Rates. Councils can make submissions on the draft guidelines until 14 March 2013 and it is expected the guidelines will be finalised in advance of budgets and rates being set for the 2013/14 year. Councils should consider their application of differential rates and associated disclosures in the budget report in light of the new guidelines.

# Statutory disclosures

## 1. Borrowings[2]

| | 2012/13<br>$ | 2013/14<br>$ |
|---|---|---|
| New borrowings (other than refinancing) | 0 | **0** |
| Debt redemption | 1,161,000 | **1,161,000** |

## 2. Rates and charges[3]

### 2.1 The proposed rate in the dollar for each type of rate to be levied

| Type of Property | 2012/13<br>cents/$CIV | 2013/14<br>cents/$CIV |
|---|---|---|
| General rate for rateable residential properties | 0.246871 | **0.256499** |
| General rate for rateable commercial properties | 0.432172 | **0.449027** |
| Rate concession for rateable recreational properties | 0.216086 | **0.224513** |

### 2.2 The estimated amount to be raised by each type of rate to be levied

| Type of Property | 2012/13<br>$ | 2013/14<br>$ |
|---|---|---|
| Residential | 22,026,450 | **23,153,272** |
| Commercial | 7,668,175 | **7,870,714** |
| Recreational | 14,401 | **14,869** |

### 2.3 The estimated total amount to be raised by rates

| | 2012/13<br>$ | 2013/14<br>$ |
|---|---|---|
| Total rates to be raised | 29,709,026 | **31,038,855** |

### 2.4 The proposed percentage change in the rate in the dollar for each type of rate to be levied, compared to that of the previous financial year

| Type of Property | 2012/13<br>Change<br>% | 2013/14<br>Change<br>% |
|---|---|---|
| Residential | (17.6) | **3.9** |
| Commercial | (17.6) | **3.9** |
| Recreational | (17.6) | **3.9** |

### 2.5 The number of assessments for each type of rate to be levied, compared to the previous year

| Type of Property | 2012/13<br>$ | 2013/14<br>$ |
|---|---|---|
| Residential | 51,909 | **52,584** |
| Commercial | 4,582 | **4,514** |
| Cultural and Recreational | 10 | **10** |
| **Total number of assessments** | 56,501 | **57,108** |

**2.6 The basis of valuation to be used is the Capital Improved Value (CIV)**

**2.7 The estimated total value of land in respect of which each type of rate is to be levied, compared with the previous year**

| Type of Property | 2012/13 $ | 2013/14 $ |
|---|---|---|
| Residential | 8,922,249,818 | **9,026,652,050** |
| Commercial | 1,774,332,944 | **1,752,837,600** |
| Cultural and Recreational | 6,664,238 | **6,623,000** |
| **Total** | 10,703,247,000 | **10,786,112,650** |

**2.8 The proposed unit amount to be levied for each type of charge under section 162 of the Act**

| Type of Charge | Per Rateable Property 2012/13 $ | Per Rateable Property 2013/14 $ |
|---|---|---|
| Municipal | 105 | **110** |
| Kerbside collection | 77 | **80** |
| Recycling | 19 | **20** |
| **Total** | 201 | **210** |

**2.9 The estimated amounts to be raised for each type of charge to be levied, compared to the previous year**

| Type of Charge | 2012/13 $ | 2013/14 $ |
|---|---|---|
| Municipal | 5,931,135 | **6,281,880** |
| Kerbside collection | 4,349,499 | **4,568,640** |
| Recycling | 1,006,911 | **1,142,160** |
| **Total** | 11,287,545 | **11,992,680** |

**2.10 The estimated total amount to be raised by rates and charges**

| | 2012/13 $ | 2013/14 $ |
|---|---|---|
| Rates and charges | 40,996,571 | **43,031,535** |
| Supplementary rates | 198,727 | **425,723** |
| **Total** | 41,195,298 | **43,457,258** |

**2.11 There are no known significant changes which may affect the estimated amounts to be raised by rates and charges. However, the total amount to be raised by rates and charges may be affected by:**

- The making of supplementary valuations
- The variation of returned levels of value (e.g. valuation appeals)
- Changes in use of land such that rateable land becomes non-rateable land and vice versa
- Changes in use of land such that residential land becomes business land and vice versa.

## 3. Differential rates[4-5]

### 3.1 Rates to be levied

The rate and amount of rates payable in relation to land in each category of differential are:

- A general rate of 0.256499% (0.256499 cents in the dollar of CIV) for all rateable residential properties
- A general rate of 0.449027% (0.449027 cents in the dollar of CIV) for all rateable commercial properties.

Each differential rate will be determined by multiplying the Capital Improved Value of rateable land (categorised by the characteristics described below) by the relevant percentages indicated above.

Council believes each differential rate will contribute to the equitable and efficient carrying out of council functions. Details of the objectives of each differential rate, the types of classes of land which are subject to each differential rate and the uses of each differential rate are set out below.

### 3.2 Commercial land

Commercial land is any land which is:

- Occupied for the principal purpose of carrying out the manufacture or production of, or trade in, goods or services or
- Unoccupied but zoned commercial or industrial under the City of Victoria Planning Scheme.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever it is located within the municipal district, without reference to ward boundaries.

The use of the land within this differential rate, in the case of improved land, is any use of land.

The characteristics of planning scheme zoning are applicable to the determination of vacant land which will be subject to the rate applicable to commercial land. The vacant land affected by this rate is that which is zoned commercial and/or industrial under the City of Victoria Planning Scheme. The classification of land which is improved will be determined by the occupation of that land, and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings already constructed on the land or which will be constructed prior to the expiry of the 2013/14 financial year.

### 3.3 Residential land

Residential land is any land, which is:

- Occupied for the principal purpose of physically accommodating persons or
- Unoccupied but zoned residential under the City of Victoria Planning Scheme and which is not commercial land.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is where it is located within the municipal district, without reference to ward boundaries.

The use of the land within this differential rate, in the case of improved land, is any use of land.

The characteristics of planning scheme zoning are applicable to the determination of vacant land which will be subject to the rate applicable to residential land. The vacant land affected by this rate is that which is zoned residential under the Victorian Local Council Planning Scheme. The classification of land which is improved will be determined by the occupation of that land, and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings already on the land or which will be constructed prior to the expiry of the 2013/14 financial year.

# Appendix C
# Capital works program[1-3]

This appendix presents a listing of the capital works projects that will be undertaken for the 2013/14 year.

The capital works projects are grouped by class and include the following:

- New works for 2013/14
- Works carried forward from the 2012/13 year.

## Commentary – Capital works program

**Purpose of capital works program**

1. A detailed listing of capital works is not mandated by legislation or other reporting requirements. However, there is sufficient community interest in the size of the capital program and individual projects to warrant a more detailed disclosure than that shown in section 6. 'Analysis of Capital Budget'.

**Disclosure**

2. Where a detailed listing of capital works is provided, it is suggested it should include as a minimum the following information:
   (a) New works
   (b) Works carried forward from the prior year
   (c) Total works to be funded in the current year.

3. As good practice, the capital projects should be classified as either asset renewal, new assets or asset expansion/upgrade and be able to be reconciled to the Standard Statement of Capital Works as shown in Appendix A.

## Capital works program
For the year ending 30 June 2014

### 1. New works

| Capital Works Area | Current year Funding $'000 | Equity Funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| **ROADS** | | | |
| **Asset renewal** | | | |
| Local roads | 1,116 | 0 | **1,116** |
| Car parks | 80 | 0 | **80** |
| Footpaths | 173 | 0 | **173** |
| Bike paths | 94 | 0 | **94** |
| Program works | 797 | 0 | **797** |
| Bridges and culverts | 10 | 0 | **10** |
| Declared main roads | 368 | 0 | **368** |
| Traffic devices | 506 | 0 | **506** |
| Street lighting | 20 | 0 | **20** |
| Traffic signals | 75 | 0 | **75** |
| Integrated transport plan | 220 | 0 | **220** |
| Roads to recovery | 808 | 0 | **808** |
| Pedestrian safety | 85 | 0 | **85** |
| Parking | 80 | 0 | **80** |
| Traffic investigations | 70 | 0 | **70** |
| Total asset renewal | 4,502 | 0 | **4,502** |
| | | | |
| **New assets** | | | |
| Local road: Northfield Plaza | 60 | 0 | **60** |
| Carpark: Northfield Leisure Centre | 55 | 0 | **55** |
| Footpath: James to High | 25 | 0 | **25** |
| Footpath: Lanham to Elm | 15 | 0 | **15** |
| Footpath: Watt to Clapam | 20 | 0 | **20** |
| Footpath: Wembley to Jet | 20 | 0 | **20** |
| Traffic devices: Bestings to James | 80 | 0 | **80** |
| Total new assets | 275 | 0 | **275** |
| | | | |
| **Asset expansion/upgrade** | | | |
| Local road: Benjamin to High | 200 | 0 | **200** |
| Local road: Pinders to Archfield | 300 | 0 | **300** |
| Local road: David to Portmouth | 110 | 0 | **110** |
| Total asset expansion/upgrade | 610 | 0 | **610** |
| **TOTAL ROADS** | 5,387 | 0 | **5,387** |
| | | | |
| **DRAINS** | | | |
| **Asset renewal** | | | |
| Roads | 570 | 0 | **570** |
| Retarding basins | 500 | 0 | **500** |
| Waterways | 20 | 0 | **20** |
| Water quality | 220 | 0 | **220** |
| Total asset renewal | 1,310 | 0 | **1,310** |
| | | | |
| **New assets** | | | |
| Storm water trap: Muddy Creek | 40 | 0 | **40** |
| Total new assets | 40 | 0 | **40** |

| Capital Works Area | Current year Funding $'000 | Equity Funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| **Asset expansion/upgrade** | | | |
| Road drain: Burke stage 1 and 2 | 300 | 0 | **300** |
| Total asset expansion/upgrade | 300 | 0 | **300** |
| **TOTAL DRAINS** | 1,650 | 0 | **1,650** |
| | | | |
| **OPEN SPACE** | | | |
| **Asset renewal** | | | |
| Parks | 577 | 1,506 | **2,083** |
| Streetscapes | 25 | 0 | **25** |
| Trees | 380 | 0 | **380** |
| Other | 76 | 0 | **76** |
| Total asset renewal | 1,058 | 1,506 | **2,564** |
| | | | |
| **New assets** | | | |
| Playing surfaces: Training lights | 0 | 91 | **91** |
| Playground equipment: Victoria Park | 0 | 170 | **170** |
| Irrigation systems: Victoria Park | 0 | 358 | **358** |
| Public art: Municipal square | 35 | 70 | **105** |
| Total new assets | 35 | 689 | **724** |
| **TOTAL OPEN SPACE** | 1,093 | 2,195 | **3,288** |
| | | | |
| **BUILDINGS** | | | |
| **Asset renewal** | | | |
| Community facilities | 0 | 1,127 | **1,127** |
| Municipal offices | 0 | 529 | **529** |
| Sports facilities | 30 | 136 | **166** |
| Pavilions | 0 | 320 | **320** |
| Other | 0 | 882 | **882** |
| Total asset renewal | 30 | 2,994 | **3,024** |
| | | | |
| **New assets** | | | |
| Community facilities: Victorian Community Facility | 186 | 1,014 | **1,200** |
| Municipal offices: Depot lift | 0 | 117 | **117** |
| Sports facilities: Velodrome / State Bowls Centre | 4,000 | 0 | **4,000** |
| Total new assets | 4,186 | 1,131 | **5,317** |
| **TOTAL BUILDINGS** | 4,216 | 4,125 | **8,341** |
| | | | |
| **PLANT, EQUIPMENT and OTHER** | | | |
| **Asset renewal** | | | |
| Information technology | 201 | 0 | **201** |
| Motor vehicles and plant | 2,021 | 1,000 | **3,021** |
| Total asset renewal | 2,222 | 1,000 | **3,222** |
| | | | |
| **New assets** | | | |
| Information technology: Asset system | 414 | 0 | **414** |
| Information technology: PCs and servers | 550 | 0 | **550** |
| Information technology: WAN infrastructure | 150 | 0 | **150** |
| Books: Product purchases | 500 | 0 | **500** |
| Total new assets | 1,614 | 0 | **1,614** |
| **TOTAL PLANT, EQUIPMENT and OTHER** | 3,836 | 1,000 | **4,836** |
| | | | |
| **FEASIBILITY STUDIES** | | | |
| **New assets** | | | |
| Victorian library concept plan | 90 | 0 | **90** |
| Total new assets | 90 | 0 | **90** |
| **TOTAL FEASIBILITY STUDIES** | 90 | 0 | **90** |

| Capital Works Area | Current year Funding $'000 | Equity Funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| **TOTAL NEW CAPITAL WORKS 2014/15** | 16,272 | 7,320 | **23,592** |
| Asset renewal | 9,122 | 5,500 | **14,622** |
| New assets | 6,240 | 1,820 | **8,060** |
| Asset expansion/upgrade | 910 | 0 | **910** |

## 2. Works carried forward from the 2012/13 year

| Capital Works Area | Current year Funding $'000 | Equity Funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| **ROADS** | | | |
| **Asset renewal** | | | |
| Local roads | 0 | 151 | **151** |
| Car parks | 0 | 35 | **35** |
| Footpaths | 0 | 63 | **63** |
| Bike paths | 161 | 110 | **271** |
| Traffic devices | 0 | 60 | **60** |
| Integrated transport plan | 0 | 77 | **77** |
| Total asset renewal | 161 | 496 | **657** |
| **Asset expansion/upgrade** | | | |
| Local roads: Johnson to Bates | 0 | 129 | **129** |
| Total asset expansion/upgrade | 0 | 129 | **129** |
| **TOTAL ROADS** | 161 | 625 | **786** |
| **DRAINS** | | | |
| **Asset renewal** | | | |
| Roads | 0 | 37 | **37** |
| Waterways | 130 | 20 | **150** |
| Total asset renewal | 130 | 57 | **187** |
| **Asset expansion/upgrade** | | | |
| Road drain: Grange final stage | 0 | 48 | **48** |
| Total asset expansion/upgrade | 0 | 48 | **48** |
| **TOTAL DRAINS** | 130 | 105 | **235** |
| **OPEN SPACE** | | | |
| **Asset renewal** | | | |
| Parks | 0 | 50 | **50** |
| Total asset renewal | 0 | 50 | **50** |
| **New assets** | | | |
| Playing surfaces: Training lights | 0 | 10 | **10** |
| Public art: Northfield shopping centre | 0 | 35 | **35** |
| Total new assets | 0 | 45 | **45** |
| **TOTAL OPEN SPACE** | 0 | 95 | **95** |
| **BUILDINGS** | | | |
| **Asset renewal** | | | |
| Community facilities | 20 | 280 | **300** |
| Municipal offices | 150 | 340 | **490** |
| Sports facilities | 0 | 215 | **215** |
| Other | 0 | 297 | **297** |
| Total asset renewal | 170 | 1,132 | **1,302** |

| Capital Works Area | Current year Funding $'000 | Equity Funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| **New assets** | | | |
| Municipal offices: Civic Precinct | 0 | 752 | **752** |
| Total new assets | 0 | 752 | **752** |
| **Asset expansion/upgrade** | | | |
| Community facilities: Newlands Centre | 0 | 3,000 | **3,000** |
| Total asset expansion/upgrade | 0 | 3,000 | **3,000** |
| **TOTAL BUILDINGS** | 170 | 4,884 | **5,054** |
| **PLANT, EQUIPMENT AND OTHER** | | | |
| **Asset renewal** | | | |
| Information technology | 0 | 478 | **478** |
| Motor vehicles and plant | 95 | 63 | **158** |
| Total asset renewal | 95 | 541 | **636** |
| **New assets** | | | |
| Information technology: PCs and servers | 0 | 319 | **319** |
| Total new assets | 0 | 319 | **319** |
| **TOTAL PLANT, EQUIPMENT and OTHER** | 95 | 860 | **955** |
| **TOTAL CARRIED FWD WORKS 2012/13** | 556 | 6,569 | **7,125** |
| Asset renewal | 556 | 2,276 | **2,832** |
| New assets | 0 | 1,116 | **1,116** |
| Asset expansion/upgrade | 0 | 3,177 | **3,177** |

## 3. Summary

| Capital Works Area | Current year Funding $'000 | Equity funding Prior years $'000 | Project Cost $'000 |
|---|---|---|---|
| Asset renewal | 9,678 | 7,776 | **17,454** |
| New assets | 6,240 | 2,936 | **9,176** |
| Asset expansion/upgrade | 910 | 3,177 | **4,087** |
| **TOTAL CAPITAL WORKS** | 16,828 | 13,889 | **30,717** |

# Appendix D
# Key strategic activities[1-2]

This appendix presents a number of key strategic activities to be undertaken during the 2013/14 year and performance targets and measures in relation to these.

## Commentary – Key strategic activities

**Purpose of key strategic activities**

1. Section 127 of the Act requires the budget to separately identify the Key Strategic Activities (KSAs) to be undertaken during the financial year and performance targets and measures in relation to each KSA. Section 132 of Act states that the KSA and performance targets and measures specified under Section 127 of the Act must be included in the Performance Statement in the Annual Report and be subject to audit.

**Disclosure**

2. The KSAs of Council are those significant activities and/or initiatives which will directly contribute to the achievement of the Council Plan during the current year. KSAs have a major focus for the budget year and lead to significant outcomes for the organisation and community therefore they should be grouped under the Council Plan strategic objectives to show this relationship. In selecting the KSAs, councils should consider the source of data for reporting back to the community against the targets. Council will require systems for data collection and reporting that are reliable and provide timely information in the format addressing the targets identified. Ideally, Council will not be dependent on third parties for the provision of data to enable preparation of the Performance Statement. As the KSAs will be reported to the community it will be essential that they are specific, measurable, achievable and realistic and have a timeframe. If these attributes cannot be achieved, then there will be a high risk that the Performance Statement will not be auditable and the Council may receive an audit qualification. As the KSAs will vary from year to year, so will the Performance Statement which will be subject to audit. Further comments on KSAs are included in the commentary to section 3 of this budget report.

## Key strategic activities

For the year ending 30 June 2014

| Key Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| **Advocacy and Leadership** | | |
| Implement outcomes of the Poverty Inquiry recommendations through development of a responsible gambling charter for the City. | Time: Adopt the responsible gaming charter within the required timeframe. | 31 Dec 2013 |
| | Quantity: Number of registered gambling agencies who are signatories to the charter. | ≥ 75% |
| | Quality: Reduction in spending at gaming venues in the City. | >10% |
| **Community and Economic Development** | | |
| Implement the community languages program to improve the way Council meets the cultural diversity needs of the community | Time: Implement the community languages program through the Library Services within the required timeframe. | 31 Oct 2013 |
| | Cost: Deliver the community languages program within the value of the government grant. | $25,000 |
| | Quantity: Number of community members participating in the community languages program within six months. | ≥ 35 |
| | Quality: Level of satisfaction of participants in the languages program. | >75% |
| **Community Participation** | | |
| Redevelop Council's multilingual website and other communication services in order to meet the needs of the non-English speaking community | Time: Website implemented and 'live'. | 31 Mar 2014 |
| | Quantity: Increase in the number of multilingual website hits compared with 2011/12 levels. | ≥ 50% |
| | Quality: Percentage of website users indicating the site provides a helpful service through a site exit survey. | >75% |
| Develop a community engagement framework to increase community participation in decision making | Quantity: Number of participants in community forums. | >2000 |
| | Time: Framework developed within planned timeframe. | 30 Nov 2013 |
| | Quality: Percentage of community satisfaction with Council's decision making processes. | >75% |
| **Resource Management** | | |
| Complete the capital works program to ensure assets are provided and maintained at an appropriate level | Quantity: The proportion of budgeted Capital Works projects completed at the conclusion of the financial year. | 90% |
| | Cost: The proportion of capital works projects completed within the allocated budget. | 90% |
| | Quality: The number of attendances at the new Victorian City Council Velodrome / State Bowls Centre. | >5,000 |

| Key Strategic Activity | Performance Measure | Performance Target |
|---|---|---|
| **Resource Management (continued)** | | |
| Develop and implement a new workforce plan in order to attract and retain quality staff | Quantity: Proportion of total permanent staff continuing employment with Council each year. | ≥ 85% |
| | Quality: Proportion of staff who are overall satisfied or very satisfied with working at the city. | ≥ 85% |
| | Time: Approval of the new workforce plan within the required timeframe. | 31 Dec 2013 |
| **Quality Service** | | |
| Implement the Continuous Improvement program in order to ensure Council is delivering effective and efficient services to the community | Quantity: The number of Council services that have completed the scheduled continuous improvement service reviews. | 15 |
| | Time: Development of agreed service standards for each service that has been reviewed. | 30 June 2014 |
| Implement the Customer Service Excellence Program to enhance frontline service delivery to community members | Time: Service Excellence program completed within the required timeframes. | 31 Mar 2014 |
| | Quality: Average time taken (in seconds) to answer telephone call enquiries. | ≤ 20 |
| | Quality: Proportion of telephone calls with enquiries resolved at first point of contact. | >70% |
| **Urban Development and the Environment** | | |
| Implement an on-line application process and reduce the time taken to process planning applications | Quality: Proportion of planning applications processed within 60 days. | ≥ 90% |
| | Quantity: Number of planning applications received on-line. | >500 |
| | Cost: Difference between the actual cost of the on-line system and budget. | <$0 |
| Implement a targeted education program for residents to reduce the amount of waste diverted to landfill | Quality: Increase in the proportion of waste diverted away from landfill from 2012/13 levels. | ≥ 2% |
| | Quantity: Total attendance at the education programs undertaken. | >1000 |
| Implement an energy efficiency program to reduce Council's carbon footprint | Quality: Reduction in $CO^2$ equivalent emissions from the council's operations from 2012/13 levels. | 5% |
| | Cost: Reduction in Council's energy costs from 2012/13 levels. | 3% |

# Appendix E
# Fees and charges schedule[1]

This appendix presents the fees and charges of a statutory and non-statutory nature which will be charged in respect to various goods and services provided during the 2013/14 year.

## Commentary – Fees and charges schedule

**Disclosure**

1. The disclosure of fees and charges to be levied for various goods and services provided during the year is optional and is not required by legislation. However, it is common practice for councils to include such a schedule in the budget report.

**End of Victorian City Council Budget Report**

# Glossary

| Term | Definition |
|---|---|
| Act | Local Government Act 1989 |
| Accounting Standards | Accounting standards are issued from time to by the professional accounting bodies and are applicable to the preparation of general purpose financial reports.<br><br>Standards issued by the Australian Accounting Standards Board (AASB) which are specifically relevant to local government include:<br>AASB 1051 – Land Under Roads<br>AASB 1052 – Disaggregated Disclosures |
| Activities and initiatives | Section 127 of the Act requires a budget to contain a description of the activities and initiatives to be funded by the budget, along with a statement as to how they will contribute to the achievement of the Council's strategic objectives as specified in the Council Plan. The activities of Council are those services which it undertakes to meet the needs of the community as reflected in the Council Plan. They tend to be ongoing in nature and have internal and external customers. Initiatives are tasks or actions that are once-off in nature and lead to improvements in services or service levels. |
| Annual budget | This document is framed within the Council's strategic resource plan and sets out the short term goals and objectives as part of the overall strategic planning framework. |
| Annual operating budget *(Budgeted income statement)* | The budgeted income statement shows the expected operating result in the forthcoming year with a distinction made between revenue received for operating purposes and revenue received for capital purposes. |
| Annual report | The annual report prepared by Council under section 131 of the Act. |
| Annual reporting requirements | Annual reporting requirements include the financial reporting requirements of the Act, Accounting Standards and other mandatory professional reporting requirements. |
| Asset renewal | Expenditure on an existing asset, which returns the service potential or the life of the asset, up to, that which it had originally. It is periodically required expenditure, relatively large (material) in value compared with the value of the components of the asset being renewed. As it reinstates existing service potential, it has no impact on revenue, but may reduce future operating and maintenance expenditure if completed at the optimum time. |
| Asset upgrade | Expenditure which enhances an existing asset to provide a higher level of service or expenditure that will increase the life of the asset beyond that which it had originally. Upgrade expenditure is discretional and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the asset base. |
| Asset expansion | Expenditure which extends an existing asset, at the same standard as is currently enjoyed by residents, to a new group of users. Expansion expenditure is discretional which increases future operating and maintenance costs because it increases Council's asset base, but may be associated with additional revenue from the new user group. |

# Glossary

| Term | Definition |
|---|---|
| Borrowing strategy | A borrowing strategy is the process by which the Council's current external funding requirements can be identified, existing funding arrangements managed and future requirements monitored. |
| Budgeted balance sheet *(Budgeted balance sheet)* | The budgeted balance sheet shows the expected net current asset, net non-current asset and net asset positions in the forthcoming year compared to the forecast actual in the current year.<br>The budgeted balance sheet should be prepared in accordance with the requirements of AASB 101 - Presentation of Financial Statements. |
| Budgeted cash position (Budgeted cash flow statement) | The budgeted cash flow statement shows the expected net cash inflows and outflows in the forthcoming year in the form of reconciliation between opening and closing balances of total cash and investments for the year. Comparison is made to the current year's expected inflows and outflows.<br><br>The budgeted cash flow statement should be prepared in accordance with the requirements of AASB 107 Statement of Cash Flows. |
| Budgeted income statement | The budgeted income statement shows the expected operating result in the forthcoming year compared to the forecast actual result in the current year. The budgeted income statement should be prepared in accordance with the requirements of AASB101 Presentation of Financial Statements. |
| Budget preparation requirement | Under the Act, a Council is required to prepare and adopt an annual budget by 31 August each year. |
| Capital contributions | Capital contributions include assets contributed by developers, government grants and contributions received for capital purposes and contributions from developers such as open space. |
| Capital expenditure | Capital expenditure is relatively large (material) expenditure that produces economic benefits expected to last for more than 12 months. A pre-determined 'threshold' may be used which indicates the level of expenditure deemed to be material in accordance with Council's policy. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and upgrade expenditures, the total project cost needs to be allocated accordingly. |
| Capital works budget *(Budgeted capital works statement)* | The capital works budget shows the expected internal and external funding for capital works program and the total proposed capital works program for the forthcoming year with a comparison with forecast actual for the current year. |
| Capital works program | Capital works projects that will be undertaken during the 2013/14 year. |
| Carry forward capital works | Carry forward capital works are those that that are incomplete in the current budget year due to unavoidable delays and will be completed in the following budget year. |
| Carry forward surpluses | Inappropriately recognised by many councils at the end of the current year as the critical starting point in the development of the budget for the following year. |
| Council plan | This document sets out the medium term goals and objectives as part of the overall strategic planning framework and strategic resource plan and is prepared under section 125 of the Act. |

# Glossary

| Term | Definition |
|---|---|
| Community satisfaction survey | A survey conducted on an annual basis by every Council. |
| Current year rate increase *(Rating information)* | A statement included in the budget quantifying the amount of the rate change for the forthcoming year and disclosing any significant factors influencing the rate change. |
| Differential rates | When a Council intends to declare a differential rate (eg business and residential), information prescribed by the Act under section 161 must be disclosed in the Council budget. |
| Discretionary reserves | Discretionary reserves are funds earmarked by Council for various purposes. Councils can by resolution change the purpose of these reserves. |
| Executive summary | Opening section of report designed to give the reader an overview and high level "snapshot" of the information provided in the report. |
| External funding sources *(Analysis of capital budget)* | External funding sources relate to capital grants or contributions, which will be received from parties external to the Council. It also includes the proceeds of assets sold to fund the capital works program. |
| External influences in the preparation of a budget | Matters arising from third party actions over which Council has little or no control eg change in legislation. |
| Financial sustainability | A key outcome of the strategic resource plan. Longer term planning is essential in ensuring that a Council remains financially sustainable in the long term. |
| Financing activities | Financing activities means those activities which relate to changing the size and composition of the financial structure of the entity, including equity, and borrowings not falling within the definition of cash. |
| Infrastructure | Physical assets of the entity or of another entity that contribute to meeting the public's need for access to major economic and social facilities and services. |
| Infrastructure strategy | An infrastructure strategy is the process by which current infrastructure and ongoing maintenance requirements can be identified, budgeted capital works implemented and future developments monitored. The key objective of an infrastructure strategy is to maintain or preserve Council's existing assets at desired condition levels. If sufficient funds are not allocated to asset preservation then Council's investment in those assets will reduce, along with the capacity to deliver services to the community. |
| Internal funding sources *(Analysis of capital budget)* | Internal sources relate to cash and investments held in reserves or which are uncommitted and cash that will be generated from the operations of Council during the budget year. The latter should equate to the cash inflows from operating activities less capital revenue. |
| Internal influences in the preparation of a budget | Matters arising from Council actions over which there is some element of control (eg approval of unbudgeted capital expenditure). |
| Investing activities | Investing activities means those activities which relate to acquisition and disposal of non-current assets, including property, plant and equipment |

# Glossary

| Term | Definition |
|---|---|
| | and other productive assets, and investments not falling within the definition of cash. |
| Key assumptions | When preparing a budgeted balance sheet of financial position, key assumptions upon which the statement has been based should be disclosed in the budget to assist the reader when comparing movements in assets, liabilities and equity between budget years. |
| Key budget outcomes | The key activities and initiatives that will be achieved in line with the Council plan. |
| Key financial indicators | A range of ratios and comparisons of critical financial data over a period of years allowing a reader to gain a better understanding of key measures, such as indebtedness and liquidity which are often undisclosed when financial information is presented in standard statement format.<br><br>*Operating expenses / Assessment*<br>This ratio measures the average operational spending (as drawn from the income statement) on a per assessment basis. It should be noted that for this ratio to be meaningful, operational expenditure should be adjusted to remove non-operational items such as granted assets from developers any budgeted revaluation income.<br><br>*Rate revenue/ Total revenue*<br>This ratio measures Council's reliance on rate revenue as its principal source of funding. Increasing trends in this ratio will highlight that growth in rate revenue is frequently higher than what is able to be achieved in Fees and Grant revenue.<br><br>*Rate revenue / Assessment*<br>This ratio provides an illustration of the average rates paid on a per assessment basis across the municipality. This measure does not differentiate between residential and commercial ratepayers and does not represent either an average residential or commercial rate.<br><br>*Debt servicing / Total revenue*<br>This ratio contrasts the amount of interest expense that Council is incurring on its interest bearing liabilities as a percentage of the total revenue base.<br><br>*Grants/ Total revenue*<br>This ratio provides an indication of the percentage of total revenue that is comprised of grant income. Falling percentages will indicate that grant revenue is not keeping pace with growth in total revenue and will most probably link to increasing reliance on rate revenue. |
| Key financial indicators continued | *Fees and charges / Total revenue*<br>This ratio provides an indication of the percentage of total revenue that is comprised of fees and charges income. Falling percentages will indicate that fees and charges revenue is not keeping pace with growth in total revenue and will most probably link to increasing reliance on rate revenue.<br><br>*Indebtedness / Rate revenue*<br>This ratio measures the total amount of interest bearing liabilities compared to the annual rates levy.<br><br>*Underlying operating result / Total assets* |

# Glossary

| Term | Definition |
|---|---|
| | This ratio indicates the contribution the underlying operational position makes to the net asset base of Council. Deficit ratios will highlight the percentage of total assets that is being eroded on annual basis by the operational activities of Council. Surplus ratios will highlight the additional contribution that is made to net asset base.<br><br>*Total assets / Assessment*<br>This ratio expresses the total assets that Council holds on a per assessment basis.<br><br>*Current assets / Current liabilities*<br>Otherwise known as the working capital ratio, this indicator expresses Council's short-term ability to meet its liquidity requirements within the current financial year. Ratio's below or nearing 100% indicate that Council may not be able to meet short-term liabilities.<br><br>An alternative measure is to reduce the long service leave that is shown as a current liability to that which is expected to be paid in the next twelve months rather than where there is an unconditional entitlement. This will have the effect of improving the working capital ratio and is considered to be a better indication of liquidity as it is unlikely that all employees will take their entitlement when it falls due.<br><br>*Total liabilities / Assessment*<br>This ratio expresses the sum total of current liabilities and non-current liabilities expressed on a per assessment basis.<br><br>*Capital outlays / Total cash outflows*<br>This ratio draws the amount of projected cash outflows from the cash flow statement to be expended on the acquisition of property, plant and equipment (inclusive of infrastructure expenditure) as a percentage of all cash outflows. Declining trends may indicate that Council is not or will not in the future be able to adequately fund asset renewal as required or deliver required new facilities.<br><br>*Capital outlays / Rate revenue*<br>This ratio represents the capital outlays as a percentage of rate revenue and therefore Council's relative ability to convert rate revenue into capital works. The outcomes in this ratio will be influenced by capital grants. |
| Key financial indicators continued | *Capital renewal expenditure / Total depreciation*<br>As distinct from other capital ratios, this indicator looks solely at capital renewal expenditure and excludes capital spending on new assets and expansion/upgrade. By contrasting this ratio against total depreciation, the outcome provides a broad level overview on whether Council is able to achieve a result in excess of 100%. This is a useful indicator but given depreciation may not always represent asset consumption on an annual basis care should be used in its interpretation. |
| Key strategic activities | Section 127 of the Act requires the budget to separately identify the Key Strategic Activities (KSAs) to be undertaken during the financial year and performance targets and measures in relation to each KSAs. Section 132 of the Act states that the KSAs and performance targets and measures specified under Section 127 of the Act must be included in the Performance Statement in the Annual Report and be subject to audit.<br><br>KSAs are those significant activities and/or initiatives which will directly |

## Glossary

| Term | Definition |
|---|---|
| | contribute to the achievement of the Council Plan during the current year. KSA's can be major new initiatives over and above normal service delivery or a combination of activities and initiatives which have a major focus for the budget year and lead to significant outcomes for the organisation and community. |
| Legislative framework | The Act, Regulations and other laws and statutes which set a Council's governance and reporting requirements. |
| Local government asset investment guidelines | A publication, released in 2006 by the Department of Planning and Community Development (formerly the Department for Victorian Communities) that provides a framework for the development of a capital works programs. |
| Local Government (Finance and Reporting) Regulations 2004 | The objective of these Regulations, made under section 243 of the local Government Act 1989 and which came into operation on 20 April 2004, is to prescribe for the purposes of the Local Government Act 1989:<br>(a) The manner in which the standard statements and financial statements of a Council are to be prepared and their contents<br>(b) The information to be included in a Council Plan, budget, revised budget and annual report<br>(c) Other matters required to be prescribed under Parts 6 and 7 of the Act. |
| New assets | New assets do not have any element of expansion or upgrade of existing assets. New capital expenditure may or may not result in additional revenue for Council and will result in an additional burden for future operation, maintenance and capital renewal. |
| Non-financial resources | Resources of a non-financial nature (such as human resources, information systems and processes, asset management systems) which are consumed by a Council in the achievement of its strategic resource plan goals |
| Operating activities | Operating activities means those activities that relate to the provision of goods and services. |
| Operating expenditure | Operating expenditure is defined as consumptions or losses of future economic benefits, in the form of reductions in assets or increases in liabilities; and that result in a decrease in equity during the reporting period. |
| Operating performance *(Impact of current year on 2013/14 budget* | This statement shows the expected operating result as compared to the budget result in the current year separating operating and capital components of revenue and expenditure. |
| Operating revenue | Operating revenue is defined as inflows or other enhancements or savings in outflows of future economic benefits in the form of increases in assets or reductions in liabilities and that result in an increase in equity during the reporting period. |
| Performance statement | Required by section 132 of the Act, a performance statement must be included in the annual report of a Council and include:<br>(a) The key strategic activities and performance measures specified in the budget under section 127 for that financial year |

## Glossary

| Term | Definition |
|---|---|
| | (b) The actual results achieved for that financial year having regard to the performance targets and measures. |
| Rate structure *(Rating information)* | Site value (SV), capital improved value (CIV) or net annual value (NAV) are the main bases upon which rates will be levied. These should be detailed in the budget statement. |
| Rating strategy | A rating strategy is the process by which the Council's rate structure is established and how the total income generated through rates and charges is allocated across properties in the municipality. Decisions regarding the quantum of rate levels and increases from year to year are made as part of Council's long term financial planning processes and with consideration of Council's other sources of income and the planned expenditure on services and works to be undertaken for its community. |
| Regulations | Local Government (Finance and Reporting) Regulations 2004. |
| Restricted funds and discretionary reserves | Monies set aside for statutory and discretionary purposes. |
| Revised budget | Section 128 of the Act permits a Council to prepare a revised budget if circumstances arise which cause a material change in the budget and which affects the financial operations and position of the Council. |
| Road Management Act | The purpose of this Act which operates from 1 July 2004 is to reform the law relating to road management in Victoria and to make relating amendments to certain Acts, including the local Government Act 1989. |
| Service delivery *(in strategic resource plan)* | A key outcome of a strategic resource plan, service delivery must be linked with performance strategies in order to assess the adequacy of service delivery and the impact on long term budget preparation. |
| Standard statements | Prepared under section(s) 126(2)(a), 127(2)(a) and / or 131(1)(b) of the Act, standard statements are required in the:<br>-Strategic resource plan<br>-Budget<br>-Annual report<br><br>While the same set of statements (detailed below) is required in each of these reports, they have different focuses due to the differing purposes of each report. The formats of these statements therefore need to reflect these different focuses being strategic, management and reporting, while remaining comparable.<br><br>The standard statements are the:<br>-Standard Income Statement<br>-Standard Balance Sheet<br>-Standard Cash Flow Statement<br>-Standard Capital Works Statement |
| "Standard Statements, A Guide" | Publication by the Department of Planning and Community Development (formerly the Department for Victorian Communities) released in 2004 which provides guidance on the preparation of the four standard statements as required by the Act. |
| Statutory disclosures | Section 127 of the Act and the Regulations require certain information |

## Glossary

| Term | Definition |
|---|---|
| | relating to projected results, borrowings, capital works and rates and taxes to be disclosed within the budget. |
| Statutory reserves | Statutory reserves are funds set aside for specified statutory purposes in accordance with various legislative requirements. These reserves are not available for other purposes. |
| Strategic planning framework | A "community owned" document or process which identifies the long term needs and aspirations of the Council, and the medium and short term goals and objectives which are framed within the long term plan. |
| Strategic resource plan (SRP) | The Act requires that a Council plan should include a strategic resource plan that includes financial and non-financial resources including human resources.<br><br>The strategic resource plan outlines the resources required to achieve the Council plan. As a minimum a strategic resource plan must include in respect of at least the next four years:<br>(a) Standard statements describing the required financial resources<br>(b) Statements describing the required non-financial resources including human resources.<br><br>Such planning is essential in ensuring that an organisation remains financially sustainable in the long term. The annual budget should be consistent with the first projected year of a strategic resource plan. |
| Sustainability index *(Infrastructure strategy)* | The sustainability index is a means of measuring a Council's performance in the area of infrastructure preservation. This is the proportion of the total asset value consumed compared to the amount spent in preserving the asset on an annual basis. |
| Three way budgeting methodology *(Strategic resource plan)* | The linking of the income statement, balance sheet and cash flow statement to produce forecast financial statements based on assumptions about future movements in key revenues, expenses, assets and liabilities. |
| Underlying result | The underlying result is a measure of financial sustainability of the Council which can be masked in the net surplus (deficit) by non-recurring or capital related items. It is equal to the net surplus (deficit) adjusted for capital grants, non-monetary contributions and other once-off adjustments.<br><br>This definition differs from the underlying surplus as determined by the Victorian Auditor General in his report "Local Government: Results of the 2011-12 Audits" issued in November 2012 which includes capital contributions in the calculation. In this Guide, capital grants are excluded from the definition on the basis that they are recorded as income but are reflected in assets capitalised on Council's balance sheet and depreciated in later years. |
| Unrestricted cash and investments | Unrestricted cash and investments represents funds that are free of all specific Council commitments and are available to meet daily cash flow requirements and unexpected short term needs. |
| Valuations of Land Act 1960 | The Valuations of Land Act 1960 requires a Council to revalue all rateable properties every two years. |

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