STRATEGIC RESOURCE PLAN 2012/13 - 2015/16

CITY OF PORT PHILLIP

Overview

The Strategic Resource Plan (SRP) is a four year plan of the financial and human resources Council requires to implement the actions and deliver the goals and objectives set out in the Council Plan 2009 – 2013.

Council's Goals & Strategies

In pursuit of its objectives, Council holds central the need for sustainability by ensuring continued operating viability, a positive cash flow, a growing asset base, support of its human resources and strengthening of its service culture. The SRP goal embodies four financial objectives supported by 12 strategies and one non-financial objective supported by two strategies, as detailed below:

Objective		Strategies
1. CoPP will have an ongoing balanced budget and ideally a small surplus.	1	Expenditure on operating activities will be in line with or lower than income from operating activities, producing a surplus. Any surplus achieved will be carried over to subsequent years.
	2	Rate revenue will remain at a constant percentage of total revenue (target less than 60% of total revenue) and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.
	3	Services will be expanded where the expansions are sustainable within operating revenue, or funded by extra revenue.
2. The CoPP asset base will be maintained, enhanced and expanded.	4	The total pool of assets will increase in value each year – excluding the effect of any revaluation adjustments.
	5	Assets will be managed in accordance with community need, optimum utilisation and long-term efficiency.
	6	Capital expenditure on existing assets (asset renewals and enhancements) will be higher than depreciation.
	7	Debt will be managed prudently so that the cost of debt servicing can be redirected into service delivery, where appropriate.
3. Liquidity will be maintained at levels that assure adequate working capital without the need to resort to borrowings or a bank overdraft.	8	General reserves will be maintained at levels sufficient to ensure operational liquidity.
	9	Council will consider new loans for funding community capital works projects that will be supported by other cost efficiencies, supplemented by revenue streams, enhanced service delivery, or provide benefits to future generations.
	10	Investments will be based on increasing reserves to fund periodic large capital expenditure items.
4. Capital works will address community needs without ignoring long term financial impacts.	11	CoPP's capital assets will be enhanced and preserved to ensure that Council's service delivery capabilities are maintained and improved where possible.
	12	CoPP will provide new assets in a way that assists in clustering community assets for social, service delivery and financial effectiveness.
5. CoPP will proactively lead, develop and build organisational culture based on the provision of same day service and a work life balance.	13	CoPP will provide leadership and learning to its staff that builds relationships and where core learning objectives will focus on customer service, the provision of same day service, technical skills, leadership and innovation.
	14	CoPP will support the development of policy and practice in the workplace and community to increase organisational effectiveness.

Non Financial Resources

Our Culture

At the City of Port Phillip we place a high importance on developing relationships with our customers, stakeholders and each other to assist us to achieve the goal of providing the community with service excellence.

Our culture is based on the following five key staff values which are intended to provide a framework that reinforces and supports this goal.

- **Working together**
- **Creative and Strategic thinking**
- **Personal Growth and Performance**
- **Accountability**
- **Courage and Integrity**

Our People

Our people are our most valued resource. We have a diverse workforce of committed individuals with an extensive range of skills and experience. We aspire to be an employer of choice and to operate collectively as one organisation focused on the achievement of the Council Plan initiatives. Our commitment to professional development, mentoring, open communication, feedback and a safe and respectful working environment enables us to do this. Through our Enterprise Agreement we are committed to a work and life balance where the needs of our people are maintained and embedded in the way we work.

The following chart shows the Full Time Equivalent (FTE) staff Council employs to deliver services by Division. The FTE changes and associated costs for these staff are shown and a plan of costs for the next four years if staffing numbers were to remain constant

Equivalent Full Time (FTE) Employment by Division and associated costs *

	Approved Budget 2011-2012	Projection of costs 2011-2012 $000	Increase in EFT from Prior Year Budget	Approved Budget 2012-2013	Budget 2012-2013 $000	Budget 2013-2014 $000	Budget 2014-2015 $000	Budget 2015-2016 $000
CEO	3.00	534	0.00	3.00	559	587	616	647
City & Infrastructure Services	87.10	8,026	4.70	91.80	8,950	9,398	9,867	10,361
Corporate Services (**Note**)	130.70	14,908	1.40	132.10	16,397	17,217	18,078	18,982
Cultural & Community Development	324.00	21,424	3.40	327.40	24,428	25,648	26,931	28,277
Environment & Planning	151.10	12,517	0.00	151.10	13,434	14,106	14,811	15,552
Sub Total	**695.90**	**57,409**	**9.50**	**705.40**	**63,768**	**66,955**	**70,303**	**73,818**

** Cost assumption is that staffing numbers will remain constant with the 2011-2012 numbers in the Plan years.*

Note: Corporate Services includes an amount of $2.788 million in salaries for the year 2012-13 for the Streetsahead program. This is fully funded through contract income and is cost neutral to council.

Financial Resources

The Strategic Resource Plan achieves a sustainable financial position for the Council. The plan generates a neutral budget position which shows that Council can meet its day to day expenditure from recurrent income. The Plan includes the following assumptions:

Income Statement

- CPI of 3.0% each year.
- Rates revenue increases by 6.25% each year with price movements of 4.75% and growth of 1.5% each year.
- Parking revenue from ticket machines will increase in line with CPI of 3% and volume movements.
- Parking revenue from fines will increase by 2% each year.
- User fees and charges will increase by CPI of 3%.
- Open space contributions will remain constant at $1.2 million per annum.
- Government grants (operating) will increase by CPI of 3%.
- Government grants (capital) will match the 5 year Capital Works program. A notional amount of $1.500 million has been provided each year.
- Interest earned at 6% dependent on cash reserves available for reinvestment.
- Other income will increase by CPI of 3%.
- Employee benefits will increase by 4.75% after the budget year being 4.0% for EBA increases and a provision for banding increases and reclassified positions.
- Contract services will increase by CPI of 3%.
- Utility costs will increase by 5% each year.
- Materials and other costs will increase by CPI of 3%.
- Professional services will increase by CPI of 3%.
- Borrowing costs and loan repayments will increase in 2012/13 in line with Council's decision to borrow $2.5 million to fund the Emerald Hill Library and Heritage Centre, Liardet Street Family and Children's service centre and South Melbourne lifesaving club.
- Depreciation will increase by $400,000 each year to cover new assets constructed and vested in Council.
- Capital works expenditure will match the 10 year Capital Works program.
- Capital expenditure will increase by CPI plus 3.0%.

Balance Sheet

- Payables, trust funds and provisions are not expected to change significantly over the life of the Strategic resource plan.
- $2.5 million is budgeted to be in 2012/13 and is to be repaid over five years at an anticipated interest rate of 7.0%.

Rating Strategy

Council's rating strategy is supported by the following principles:

- Local government taxes (rates) are levied in accordance with a ratepayer's capacity to pay as measured by the Net Annual Value (NAV) of property owned within the municipality. Rates levied are therefore directly proportional to the NAV of individual properties. Other measures such as concessions, deferral of rate payments and other discounts to fees and charges will be applied by Council to address equity and access issues.
- Universal services are funded from the broadest forms of income, rates and parking revenue.
- Fees for broadly used subsidised services provided by Council in a contestable market such as childcare and aged care will be based on a clearly articulated policy position and these services will be funded through a mix of user charges, government grants and rates and aim to achieve equitable outcomes.
- Specific individual regulatory services such as but not limited to animal licences, parking permits and planning permits will be funded, where possible, through user charges (some may be set by statute) and otherwise through rates.
- Special rates are levied against retail tenants in various shopping precincts and this rate income is then distributed to centralised trader associations to spend on the improvement of the shopping strip for the benefit of all traders.

Council's main revenue source is derived from assessment rates on properties in the municipality. Given the magnitude of council's rates revenue (approximately 56% of total revenue) it is vital that it plans properly for future rate increases.

The current forward financial plan has assumed an annual growth of 6.25% in rates revenue which is made up of two components, price – 4.75% and growth arising from new properties – 1.5%. In addition to this the current and future budgets have made provision for supplementary rate revenue of $600,000 per annum.

Port Phillip has adopted the Net Annual Value (NAV) rating system. Municipalities which have a relatively large commercial property base (i.e. inner city councils) have tended to remain on NAV due to the fact that it offers protection to residential ratepayers through an in built differential and this obviates the need for high transparent differential rates for commercial properties. Under NAV rating, property rates are determined in accordance with the rental yield and this is always assessed as being 5% of the Capital Improved Value (CIV) for residential properties and at a higher rate (typically 7% to 9%) for commercial and industrial properties. Councils that use CIV rating typically have differential rates in place for commercial and industrial properties.

Council provides for rate concessions for recreational land. Under the Cultural and Recreational Lands Act 196, 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. There are 27 recreational properties in Port Phillip that are rated under the Cultural and Recreational Lands Act and rate concessions ranging from 25% to 85% are provided.

Council provides rate concessions to pensioners. Port Phillip is one of a few councils that provide a Council pensioner rate rebate in addition to the State Government pensioner rate rebate. The 2012/2013 Budget proposes an increase in the Council pensioner rate rebate to $140.00 which may be claimed on top of the State Government rebate of $193.40.

Council also offers self funded retirees the option to defer their rates until the settlement of their estate. In addition to this, there is a 50% discount on the penalty interest that accrues over the period for which their rates are deferred.

Borrowings Strategy

Council's borrowings strategy is supported by the following principles:

- Borrowings will not be used to fund ongoing operations.
- A prudent and fiscally responsible approach will be applied in considering any proposals for new debt to deliver Council objectives.
- Where debt is increased, the servicing costs ideally need to be funded from future revenue streams or cost savings that can be expected from the investment of the funds raised.
- Borrowings are also appropriate for the purpose of funding large non-recurrent capital works projects that can be expected to provide benefits to future generations.
- Debt levels will be reduced progressively to enable the cost of debt servicing to be redirected into service delivery or building up cash backed reserves.

Details of current and proposed loan borrowings by Council are provided below.

- Council borrowed $6.400 million in June 1999 to assist in funding its defined benefits superannuation liability. This loan was taken out at a fixed interest rate of 6.15% and is to be fully repaid by April 2014.
- Council is forecast to borrow $5.00 million in June 2012 to fund the St Kilda Family and Children's centre. It is anticipated that these funds will be borrowed at an interest rate of 7.00% with the loan to be repaid over 10 years.
- Council is budgeting to borrow another $2.5 million in 2012/13 to fund capital works for the Emerald Hill Library and heritage centre, Liardet Street family and Children's service centre and South Melbourne lifesaving club. It is anticipated that these funds will be borrowed at an interest rate of 7.0 % with the loan to be repaid over five years.

Infrastructure and Asset Management Strategy

Council's infrastructure and asset management strategy is supported by the following principles:

- Council's investment and asset management strategies, purchasing arrangements and other financial tools should encourage environmental responsibility.
- Council is committed to spending between 20 and 25 percent of its total revenue budget on capital works and capital expenditure. This represents the baseline or floor that is required for Council to renew and enhance its asset base to ensure their ongoing fitness for use. It takes into account expected asset deterioration, increased asset utilisation (capacity requirements) and technology development.
- Replenishment (renewal) of existing assets is generally funded from the depreciation expense that is provided each year. This needs to be applied to the different asset subsets (drainage, roads, buildings and land improvements) to ensure consistency across the entire network of assets that Council manages.
- Maintenance of capital expenditure at levels that will replenish existing assets is a higher priority than debt reduction and investment in new assets, as asset funding shortfalls will transfer the liability to future generations.
- Asset acquisitions and capital works projects are funded from either rate revenue, sales of existing assets, government grants or external borrowings.

Financial Statements

Budgeted Standard Income Statement converted to Cash

For the four years ending 30 June 2016

	Forecast Actual 2011/12 $'000	**Budget 2012/13 $'000**	Strategic Resource Plan Projections 2013/14 $'000	2014/15 $'000	2015/16 $'000
OPERATING RESULT					
Revenues from ordinary activities					
Rates	88,438	94,530	100,401	106,638	113,266
Parking revenue	24,124	26,159	26,813	27,483	28,170
User fees & charges	14,701	16,160	16,645	17,144	17,658
Open space contributions	1,200	1,200	1,200	1,200	1,200
Grants - operating	9,131	9,783	10,076	10,379	10,690
Grants - capital	3,800	3,378	1,500	1,500	1,500
Interest received	2,613	2,120	1,957	1,600	1,398
Other income	13,096	13,285	13,684	14,094	14,517
Profit on sale of assets	1,300	0	0	0	0
	158,403	**166,615**	**172,276**	**180,038**	**188,399**
Expenses from ordinary activities					
Employee benefits	59,291	65,391	68,497	71,751	75,159
Contract services	40,308	44,140	45,464	46,828	48,233
Utilities	2,567	2,826	2,967	3,116	3,271
Materials & other expenses	20,782	21,662	22,312	22,981	23,671
Professional services	4,986	5,499	5,664	5,834	6,009
Borrowing costs	206	401	499	415	352
Depreciation	17,362	17,762	18,162	18,562	18,962
Total Expenditure	**145,502**	**157,681**	**163,565**	**169,487**	**175,657**
Operating surplus (deficit) for the year	**12,901**	**8,934**	**8,711**	**10,551**	**12,742**
CONVERSION TO CASH					
Less cash costs not included in the operating result					
St Kilda Triangle settlement (cash costs)	1,500	0	0	0	0
Capital works program	32,038	30,243	26,780	27,583	28,411
Capital works carry over	17,193	0	0	0	0
Capital expenditure - IT, parking machines & other	2,989	3,011	3,101	3,194	3,290
Borrowings	(5,000)	(2,500)	0	0	0
Loan repayments	559	952	1,448	876	939
Transfers to/(from) statutory reserves	(1,760)	(3,010)	(1,200)	600	0
Transfers to/(from) general reserves	76	(1,250)	(3,300)	(3,100)	(950)
	47,595	**27,446**	**26,829**	**29,153**	**31,690**
Plus non cash costs included in operating result					
Depreciation	17,362	17,762	18,162	18,562	18,962
Surplus/(deficit) for the year	**(17,332)**	**(750)**	**44**	**(40)**	**14**
Accumulated position brought forward					
Carry Over Surplus/(Deficit)	889	750	0	44	4
B/Fwd Surplus to fund Capital Works Carry Over	17,193	0	0	0	0
Surplus/(Deficit) Carried Forward	**750**	**0**	**44**	**4**	**18**

Budgeted Standard Balance Sheet

For the four years ending 30 June 2016

	Forecast Actual 2011/12 $'000	**Budget 2012/13 $'000**	Strategic Resource Plan Projections 2013/14 $'000	2014/15 $'000	2015/16 $'000
Current assets					
Cash and cash equivalents	30,397	25,387	20,929	18,388	17,454
Receivables	10,048	10,048	10,048	10,048	10,048
Accrued income	937	937	937	937	937
Prepayments	106	106	106	106	106
Total current assets	**41,488**	**36,478**	**32,020**	**29,479**	**28,545**
Non-current assets					
Other financial assets	3,853	3,853	3,853	3,853	3,853
Property, infrastructure, plant & equipment	1,879,669	1,895,161	1,906,882	1,919,098	1,931,835
Total non-current assets	**1,883,522**	**1,899,014**	**1,910,735**	**1,922,951**	**1,935,688**
Total assets	**1,925,010**	**1,935,492**	**1,942,755**	**1,952,430**	**1,964,233**
Current liabilities					
Payables	10,480	10,480	10,480	10,480	10,480
Trust funds and deposits	2,825	2,825	2,825	2,825	2,825
Provisions	8,076	8,076	8,076	8,076	8,076
Interest-bearing liabilities	952	1,449	876	939	1,007
Total current liabilities	**22,333**	**22,830**	**22,257**	**22,320**	**22,388**
Non-current liabilities					
Payables	0	0	0	0	0
Provisions	1,194	1,194	1,194	1,194	1,194
Interest-bearing liabilities	6,326	7,377	6,502	5,563	4,556
Total non-current liabilities	**7,520**	**8,571**	**7,696**	**6,757**	**5,750**
Total liabilities	**29,853**	**31,401**	**29,953**	**29,077**	**28,138**
Net assets	**1,895,157**	**1,904,091**	**1,912,802**	**1,923,353**	**1,936,095**
Equity					
Accumulated surplus	576,438	589,632	602,843	615,894	629,586
Asset revaluation reserve	1,293,048	1,293,048	1,293,048	1,293,048	1,293,048
Other reserves	25,671	21,411	16,911	14,411	13,461
Total equity	**1,895,157**	**1,904,091**	**1,912,802**	**1,923,353**	**1,936,095**

Budgeted Standard Cash Flow Statement

For the four years ending 30 June 2016

	Forecast Actual 2011/12 $'000 Inflows (Outflows)	**Budget 2012/13 $'000 Inflows (Outflows)**	Strategic Resource Plan Projections 2013/14 $'000 Inflows (Outflows)	2014/15 $'000 Inflows (Outflows)	2015/16 $'000 Inflows (Outflows)
Cash flows from operating activities					
Receipts					
Rates and garbage charges	88,438	**94,530**	100,401	106,638	113,266
Parking fees and fines	24,124	**26,159**	26,813	27,483	28,170
User charges and other fines	14,701	**16,160**	16,645	17,144	17,658
Grants	12,931	**13,161**	11,576	11,879	12,190
Contributions	1,200	**1,200**	1,200	1,200	1,200
Interest	2,613	**2,120**	1,957	1,600	1,398
Other revenue	14,396	**13,285**	13,684	14,094	14,517
	158,403	**166,615**	172,276	180,038	188,399
Payments					
Payments to suppliers	(40,308)	**(44,140)**	(45,464)	(46,828)	(48,233)
Payment to employees	(59,291)	**(65,391)**	(68,497)	(71,751)	(75,159)
Other Payments	(28,335)	**(29,987)**	(30,943)	(31,931)	(32,951)
St Kilda Triangle settlement	(1,500)	**0**	0	0	0
	(129,434)	**(139,518)**	(144,904)	(150,510)	(156,343)
Net cash provided by operating activities	28,969	**27,097**	27,372	29,528	32,056
Cash flows from investing activities					
Payments from property, plant and equipment	(52,220)	**(33,254)**	(29,883)	(30,778)	(31,699)
Proceeds for property, plant and equipment	0	**0**	0	0	0
Payments for investments	0	**0**	0	0	0
Net cash used in investing activities	(52,220)	**(33,254)**	(29,883)	(30,778)	(31,699)
Cash flows from financing activities					
Finance costs	(206)	**(401)**	(499)	(415)	(352)
Proceeds from borrowings	5,000	**2,500**	0	0	0
Repayment of borrowings	(559)	**(952)**	(1,448)	(876)	(939)
Net cash provided by (used in) financing activities	4,235	**1,147**	(1,947)	(1,291)	(1,291)
Net decrease in cash & cash equivalents	(19,016)	**(5,010)**	(4,458)	(2,541)	(934)
Cash & cash equivalents at beginning of year	49,413	**30,397**	25,387	20,929	18,388
Cash & cash equivalents at end of year	30,397	**25,387**	20,929	18,388	17,454

Budgeted Standard Capital Works Statement

For the four years ending 30 June 2016

	Forecast Actual 2011/12 $'000	**Budget 2012/13 $'000**	Strategic Resource Plan Projections 2013/14 $'000	2014/15 $'000	2015/16 $'000
Capital works areas					
Roads	10,750	**10,315**	8,651	8,855	9,121
Parks & open space	6,245	**6,258**	6,012	4,772	4,915
Buildings	14,003	**12,975**	11,707	13,531	13,937
Signage & street furniture	1,040	**695**	410	425	438
	32,038	**30,243**	26,780	27,583	28,411
Capital expenditure areas					
Plant & Equipment	2,989	**3,011**	3,101	3,194	3,290
TOTAL CAPITAL	35,027	**33,254**	29,881	30,777	31,701
Represented by:					
Asset renewal	13,758	**12,610**	13,454	12,284	12,653
New assets - capital works	12,980	**14,728**	7,900	1,945	2,003
Asset expansion/upgrade	5,300	**2,905**	5,426	13,354	13,755
New assets - capital expenditure	2,989	**3,011**	3,101	3,194	3,290
TOTAL CAPITAL	35,027	**33,254**	29,881	30,777	31,701

Reconciliation of net movement in property, plant and equipment

	Forecast Actual 2011/12 $'000	**Budget 2012/13 $'000**	Strategic Resource Plan Projections 2013/14 $'000	2014/15 $'000	2015/16 $'000
Capital works	32,038	**30,243**	26,780	27,583	28,411
Capital expenditure	2,989	**3,011**	3,101	3,194	3,290
Capital works carried forward	17,193	**0**	0	0	0
	52,220	**33,254**	29,881	30,777	31,701
Asset revaluation increment	0	**0**	0	0	0
Depreciation & amortisation	(17,362)	**(17,762)**	(18,162)	(18,562)	(18,962)
Written down value of assets sold	0	**0**	0	0	0
Granted assets	0	**0**	0	0	0
Recognition of previously unrecognised assets	0	**0**	0	0	0
Net movement in property, plant & equipment	34,858	**15,492**	11,719	12,215	12,739

Financial Sustainability Indicators

Underlying Result

Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2011/12	**2012/13**	2013/14	2014/15	2015/16	+/o/-
8.21%	5.40%	5.09%	5.90%	6.81%	-

Overal Risk Rating: **Low**

A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term.

Liquidity

Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2011/12	**2012/13**	2013/14	2014/15	2015/16	+/o/-
1.86	1.60	1.44	1.32	1.28	-

Overal Risk Rating: **Low**

This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there is more cash and liquid assets than short-term liabilities.

Self Financing

Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2011/12	**2012/13**	2013/14	2014/15	2015/16	+/o/-
19.38%	16.38%	16.00%	16.51%	17.12%	o

Overal Risk Rating: **Medium**

Measures the ability to replace assets using cash generated by their operations. The higher the percentage, the more effectively this can be done.

Indebtedness

Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2011/12	**2012/13**	2013/14	2014/15	2015/16	+/o/-
5.26%	5.63%	4.83%	4.05%	3.29%	+

Overal Risk Rating: **Low**

Comparison of non-current liabilities (mainly comprised of borrowings) to own sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the generate themselves.
Own sourced revenue is used (rather than total reveenue) because it does not include capial grants, which are usually tied to specific projects.

Investment Gap

Forecast 2011/12	**Budget 2012/13**	Strategic Resource Plan Projections 2013/14	2014/15	2015/16	Trend +/o/-
1.85	1.70	1.70	1.49	1.50	-

Overal Risk Rating: **Low**

Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate.
This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.

Renewal Gap

Forecast 2011/12	**Budget 2012/13**	Strategic Resource Plan Projections 2013/14	2014/15	2015/16	Trend +/o/-
0.92	1.00	0.61	0.28	0.28	-

Overal Risk Rating: **Medium**

Comparison of the rate of spending on existing assets through renewing, restoring and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate.
This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.