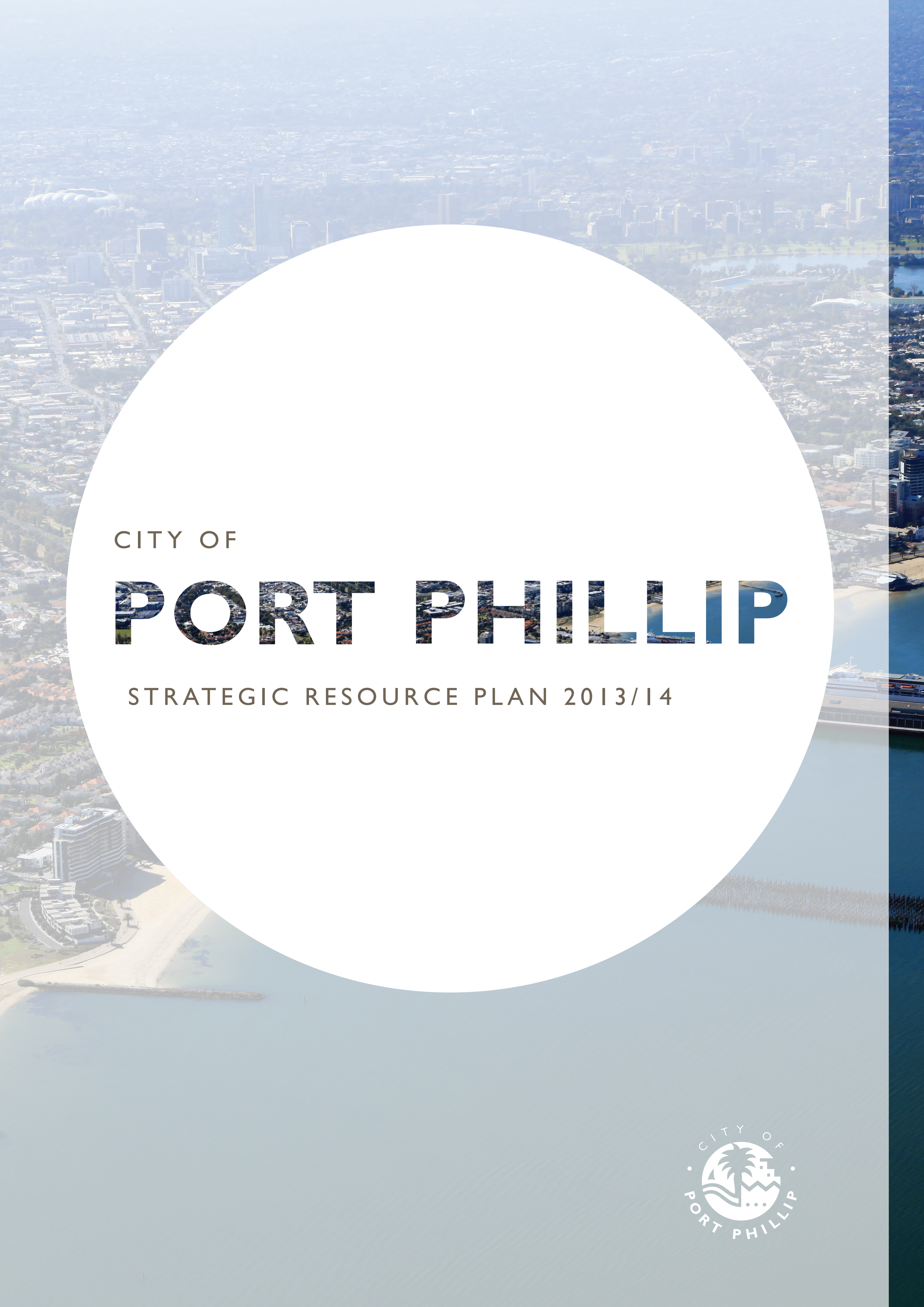

CITY OF

PORT PHILLIP

STRATEGIC RESOURCE PLAN 2013/14

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 2013 – 2017.

Councils 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 *

	EFT as at April 2013	Projection of costs 2012-2013 $000	Increase in EFT from Prior Year Budget	Budget 2013-2014 $000	Budget 2014-2015 $000	Budget 2015-2016 $000	Budget 2016-2017 $000
CEO	3.00	557	0.00	574	603	634	668
City & Infrastructure Services	91.40	9,186	2.20	9,937	10,434	10,982	11,558
Corporate Services	132.80	16,478	9.80	17,589	18,468	19,438	20,459
Cultural & Community Development	322.80	23,865	18.10	27,223	28,584	30,085	31,664
Environment & Planning	150.30	13,342	1.00	14,301	15,016	15,804	16,634
Sub Total	**700.30**	**63,428**	**31.10**	**69,624**	**73,105**	**76,943**	**80,983**

Note: Corporate Services includes an amount of $2.927 million in salaries for the year 2013-14 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 5% dependent on cash reserves available for reinvestment, (4% in 2013/14).
- Other income will increase by CPI of 3%.
- Employee benefits will increase by 5.0% after the budget year being the provision for EBA increases, banding increases, reclassified positions and includes additional statutory superannuation contributions of 0.25%.
- 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 2014/15 in line with Council's decision to borrow $7.5 million.
- 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.
- $7.5 million is budgeted to be borrowed in 2013/14 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 58% 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 2013/2014 Budget proposes an increase in the Council pensioner rate rebate to $144.00 which may be claimed on top of the current State Government rebate of $198.00.

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 budgeting to borrow $7.5 million in 2013/14 to fund capital works. This is a deferred loan which is tied to the delivery of some major capital works projects.

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 15 and 20 per cent 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 2017

	Forecast Actual 2012/13 $'000	**Budget 2013/14 $'000**	Strategic Resource Plan Projections 2014/15 $'000	2015/16 $'000	2016/17 $'000
OPERATING RESULT					
Revenues from ordinary activities					
Rates	94,530	100,196	106,421	113,035	120,062
Parking revenue	27,623	28,548	29,262	29,993	30,743
User fees & charges	13,405	15,341	15,801	16,275	16,764
Statutory fees & fines	2,520	2,700	2,781	2,864	2,950
Open space contributions	1,200	2,500	2,500	2,500	2,500
Grants - operating	9,039	10,020	10,321	10,630	10,949
Grants - capital	3,378	1,235	1,500	1,500	1,500
Interest received	2,120	1,286	1,246	1,261	1,299
Rent	7,156	7,531	7,757	7,990	8,229
Other income	7,023	6,054	6,236	6,423	6,615
	167,994	**175,411**	**183,825**	**192,471**	**201,611**
Expenses from ordinary activities					
Employee benefits	65,382	69,624	73,105	76,943	80,983
Contract services	44,237	47,337	48,657	50,117	51,620
Utilities	2,859	3,276	3,440	3,612	3,792
Materials & other expenses	22,258	19,437	20,794	22,038	23,951
Bad and doubtful debts	14	157	0	0	0
Professional services	5,448	5,803	5,469	5,542	6,118
Borrowing costs	62	24	507	469	428
Depreciation	17,762	18,162	18,562	18,962	19,362
Total Expenditure	**158,022**	**163,820**	**170,534**	**177,683**	**186,254**
Operating surplus (deficit) for the year	**9,972**	**11,591**	**13,291**	**14,788**	**15,357**
CONVERSION TO CASH					
Less cash costs not included in the operating result					
Capital works program	23,191	29,098	29,000	29,000	29,000
Capital works carry over	21,799	0	0	0	0
Capital expenditure - IT, parking machines & other	3,211	4,687	4,140	4,223	3,849
Loan repayments	594	632	537	575	617
Borrowings	0	(7,500)	0	0	0
Southport Nursing Home contribution drawdown	0	3,000	0	0	0
Payment of Superannuation Liability charge	0	10,873	0	0	0
Transfers to/(from) statutory reserves	(1,710)	500	(500)	0	0
Transfers to/(from) general reserves	1,500	(7,123)	(1,324)	(48)	1,253
	48,585	**34,167**	**31,853**	**33,750**	**34,719**
Plus non cash costs included in operating result					
Depreciation	17,762	18,162	18,562	18,962	19,362
Surplus/(deficit) for the year	**(20,851)**	**(4,414)**	**0**	**0**	**0**
Accumulated position brought forward					
Carry Over Surplus/(Deficit)	751	4,414	0	0	0
B/Fwd Surplus to fund Capital Works Carry Over	24,514	0	0	0	0
Surplus/(Deficit) Carried Forward	**4,414**	**0**	**0**	**0**	**0**

Financial Statements

Budgeted Standard Balance Sheet

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
Current Assets					
Cash assets	34,536	20,823	22,257	24,653	27,056
Receivables	9,622	9,622	9,622	9,622	9,622
Accrued income	903	903	903	903	903
Prepayments	730	730	730	730	730
Total current assets	**45,791**	**32,078**	**33,512**	**35,908**	**38,311**
Non Current Assets					
Other financial assets	205	205	205	205	205
Property, infrastructure, plant and equipment	1,896,765	1,917,790	1,929,109	1,940,924	1,953,263
Total non current assets	1,896,970	1,917,995	1,929,314	1,941,129	1,953,468
Total assets	**1,942,761**	**1,950,073**	**1,962,826**	**1,977,037**	**1,991,779**
Current Liabilities					
Payables	23,976	12,829	12,829	12,829	12,829
Trust funds	2,303	2,303	2,303	2,303	2,303
Provisions	8,903	8,903	8,903	8,903	8,903
Interest bearing liabilities	632	537	576	617	662
Total current liabilities	**35,814**	**24,572**	**24,611**	**24,652**	**24,697**
Non Current Liabilities					
Provisions	1,568	1,568	1,568	1,568	1,568
Interest bearing liabilities	1,216	8,179	7,603	6,986	6,324
Total non current liabilities	2,784	9,747	9,171	8,554	7,892
Total liabilities	38,598	34,319	33,782	33,206	32,589
Net assets	**1,904,163**	**1,915,754**	**1,929,044**	**1,943,831**	**1,959,190**
Equity					
Accumulated surplus	582,209	600,325	615,439	630,274	644,380
Asset revaluation reserve	1,298,844	1,298,844	1,298,844	1,298,844	1,298,844
Other reserves	23,110	16,585	14,761	14,713	15,966
Total equity	**1,904,163**	**1,915,754**	**1,929,044**	**1,943,831**	**1,959,190**

Financial Statements

Budgeted Standard Cash Flow Statement

For the four years ending 30 June 2017

	Forecast Actual 2012/13 $'000 Inflows (Outflows)	**Budget 2013/14 $'000 Inflows (Outflows)**	Strategic Resource Plan Projections 2014/15 $'000 Inflows (Outflows)	2015/16 $'000 Inflows (Outflows)	2016/17 $'000 Inflows (Outflows)
Cash flows from operating activities					
Receipts					
Rates and garbage charges	94,530	100,196	106,421	113,035	120,062
Parking fees and fines	27,623	28,548	29,262	29,993	30,743
User charges and other fines	13,405	15,341	15,801	16,275	16,764
Statutory fees and fines	2,520	2,700	2,781	2,864	2,950
Grants	12,417	11,255	11,821	12,130	12,449
Contributions	1,200	2,500	2,500	2,500	2,500
Interest	2,120	1,286	1,246	1,261	1,299
Rent	7,156	7,531	7,757	7,990	8,229
Other receipts	7,023	6,054	6,236	6,423	6,615
	167,994	**175,411**	**183,825**	**192,471**	**201,611**
Payments					
Payments to suppliers	(44,237)	(47,337)	(48,657)	(50,117)	(51,620)
Payments to employees	(65,382)	(69,624)	(73,105)	(76,943)	(80,983)
Other payments	(30,579)	(28,673)	(29,703)	(31,192)	(33,861)
Defined benefits Superannuation payment	0	(11,147)	0		
	(140,198)	**(156,781)**	**(151,465)**	**(158,252)**	**(166,464)**
Net cash provided by operating activities	**27,796**	**18,630**	**32,360**	**34,219**	**35,147**
Cash flows from investing activities					
Payments for property, infrastructure, plant and equipment	(52,673)	(39,187)	(29,882)	(30,778)	(31,699)
Proceeds from the sale of property, infrastruture etc	0	0	0	0	0
Payments for financial assets	0	0	0	0	0
Proceeds from sale of financial assets	0	0	0	0	0
Net cash used in investing activities	(52,673)	(39,187)	(29,882)	(30,778)	(31,699)
Cash flows from financing activities					
Repayment of interest bearing liabilities	(594)	(632)	(537)	(576)	(617)
Finance costs	(62)	(24)	(507)	(469)	(428)
Proceeds from new borrowings	0	7,500	0	0	0
Net cash provided by (used in) financing activities	**(656)**	6,844	**(1,044)**	**(1,045)**	**(1,045)**
Net increase (decrease) in cash held	(25,533)	(13,713)	1,434	2,396	2,403
Cash & cash equivalents at beginning of year	60,069	34,536	20,823	22,257	24,653
Cash & cash equivalents at end of year	**34,536**	**20,823**	**22,257**	**24,653**	**27,056**

Financial Statements

Budgeted Standard Capital Works Statement

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
Capital works areas					
Roads	9,040	**13,361**	14,600	14,600	14,600
Parks & open space	5,262	**4,172**	4,300	4,300	4,300
Buildings	8,294	**10,985**	9,500	9,500	9,500
Signage & street furniture	595	**580**	600	600	600
	23,191	**29,098**	29,000	29,000	29,000
Capital expenditure areas					
Plant & Equipment	3,211	**4,687**	4,140	4,223	3,849
TOTAL CAPITAL	26,402	**33,785**	33,140	33,223	32,849
Represented by:					
Asset renewal	4,780	**12,485**	12,372	12,372	12,372
New assets - capital works	15,748	**10,181**	10,397	10,397	10,397
Asset expansion/upgrade	2,663	**6,432**	6,231	6,231	6,231
New assets - capital expenditure	3,211	**4,687**	4,140	4,223	3,849
TOTAL CAPITAL	26,402	**33,785**	33,140	33,223	32,849

Reconciliation of net movement in property, plant and equipment

	Forecast Actual 2012/13 $'000	**Budget 2013/14 $'000**	Strategic Resource Plan Projections 2014/15 $'000	2015/16 $'000	2016/17 $'000
Capital works	23,191	**29,098**	29,000	29,000	29,000
Capital expenditure	3,211	**4,687**	4,140	4,223	3,849
Capital works carried forward	21,799	**0**	0	0	0
	48,201	**33,785**	33,140	33,223	32,849
Asset revaluation increment	0	**0**	0	0	0
Depreciation & amortisation	(17,762)	**(18,162)**	(18,562)	(18,962)	(19,362)
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	30,439	**15,623**	14,578	14,261	13,487

Financial Sustainability Indicators

Underlying Result

Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
6.10%	6.75%	7.39%	7.85%	7.77%	-

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
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
1.28	1.31	1.36	1.46	1.55	-

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
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
17.01%	10.85%	18.00%	18.16%	17.79%	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
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
1.80%	6.03%	5.41%	4.81%	4.23%	+

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.

Financial Sustainability Indicators

Investment Gap					
Forecast	**Budget**	Strategic Resource Plan Projections			Trend
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
1.31	1.60	1.60	1.53	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	**Budget**	Strategic Resource Plan Projections			Trend
2012/13	**2013/14**	2014/15	2015/16	2016/17	+/o/-
0.42	1.04	1.00	0.98	0.96	-

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.