



City of Port Phillip

# STRATEGIC RESOURCE PLAN

2007/2008 - 2011/2012

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## 1. OUR COUNCIL - BUILT ON FOUR PILLARS

The expectations of the Councillors and the community are set out for staff at the City of Port Phillip (CoPP) in the Council Plan. This Plan is built upon the achievement of four fundamental goals. We refer to them as the pillars upon which our success depends:

**Social equity** – building a just, resilient, healthy and inclusive city with equitable access to responsive and relevant services and resources.

**Economic viability** – promoting effective stewardship of the Council’s assets and positive Economic development within Port Phillip that also supports the Council’s social, cultural and environment goals.

**Environmental responsibility** – fostering a liveable and attractive urban environment that uses fewer finite resources.

**Cultural vitality** – fostering conditions that allow communities within Port Phillip to express experience and enjoy diversity of values, beliefs and aspirations.

While this Strategic Resource Plan (SRP) discusses our application of the resources we need to achieve our goals, it is readily apparent that these physical resources are only part of the forces we can apply in realising our vision. The culture of CoPP comprises a resource in its own right, as does our knowledge, staff and information.

As much as we have embraced ‘same day service’ for our delivery of services, we are equally committed to delivering the financial and physical resources required to achieve this plan. In each detailed element, the plan is supported by a detailed technical analysis and a set of asset management plans. These diverse financial and non-financial elements combine to form our SRP.

## 2. OUR PLAN- VALUE FOR MONEY SERVICE AND SUSTAINABILITY

The SRP’s underlying objective is to achieve sustainability by delivering services today without jeopardising the prospects of future generations. The achievement of this goal required consideration of the needs of ratepayers and residents, the cost of delivering services, current and future replacement requirements for infrastructure and the wider political and economic environment in which the Council can expect to operate.

### 2.1 SRP Link to Council Plan

The SRP outlines the resourcing framework that supports the sustainability of the Council Plan.

Diagram 1 – SRP Link to Council Plan



## **2.2 Framework of Financial Principles**

Council established a Finance Sub-committee in 2006 which was charged with the responsibility of reviewing Council's finances and developing a set of financial principles that could be used to guide future resource allocation decisions.

The adopted framework of financial principles detailed below articulate the strategic financial direction that Council wishes to pursue. These principles provide the organisation with specific guidance on the overarching requirements to maintain revenue and expenditure neutrality, to fully fund asset renewal requirements and to match expenditure shifts to policy changes. They also spell out the preferred funding approach for different services, and incorporate a range of asset management, debt management and pricing principles.

Application of these principles should enable the CoPP to:

- Fund the Council in the delivery of value-for-money service and the provision of quality infrastructure for the residents and ratepayers of the City, and
- Ensuring the sustainability and responsibility of the Council's long term financial management in terms of the people of the City now and for future generations.

### **2.2.1. Purpose**

- 1.1 Ensure that the Council establishes and maintains control of its financial destiny.
- 1.2 Ensure that Council's financial resources are applied towards achieving the desired outcomes, strategies and initiatives articulated in the four year Council Plan within the four pillar framework.
- 1.3 Ensure that Council balances its expenditure on services and capital work
- 1.4 The proposed framework of financial principles are enabling guidelines that will support both the ongoing viability of the City and its ability to achieve the objectives and vision in its Council Plan.

### **2.2.2. Overarching principles**

- 2.1 Achieve long term income and expenditure neutrality while keeping rates growth within the average for the sector.
- 2.2 Achieve long term cash flow neutrality while keeping rates growth within the average for the sector.
- 2.3 Maintain reserves at levels that are adequate to provide a buffer for large or unexpected short-term cash flow fluctuations.
- 2.4 Ensure that Council's long term capital program fully funds asset renewal requirements.
- 2.5 Significant or material shifts in the allocation of Council expenditure are directly linked to policy changes or conscious Council decisions that are supported by appropriate documentation (e.g. Council resolutions).

### **2.2.3. Rating and funding principles**

- 3.1 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.
- 3.2 Universal services are funded from the broadest forms of income, rates and parking revenue.
- 3.3 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.
- 3.4 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.
- 3.5 Services to commercial tenants will be funded through rents and licence fees they are charged for access to and use of Council property. In setting these rentals Council will also take into account the cost of capital improvements that need to be made by the tenant.
- 3.6 Additional or expanded services and capital infrastructure for specific commercial or industrial precincts (e.g. refurbishment of shopping centres) will be funded on a cost recovery basis in accordance with agreed plans or as co-funded with State and Federal government.

### **2.2.4. Infrastructure and Asset Management principles**

- 4.1 Council's investment and asset management strategies, purchasing arrangements and other financial tools should encourage environmental responsibility.
- 4.2 Council is committed to spending between 20 and 25 percent of its total revenue budget on capital works and capital expenditure. This re-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.
- 4.3 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.
- 4.4 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.

- 4.5 Asset acquisitions and capital works projects are funded from either rate revenue, sales of existing assets, government grants or external borrowings.
- 4.6 Medium and long term expenditure plans on the City's infrastructure network will reflect the optimum maintenance and renewal cycles over the life of the different assets, the current condition of these assets and changes in the use of these assets.
- 4.7 Assets will be managed in accordance with community need, optimum utilisation and longer-term efficiency. This recognises that Council will from time to time vary its priorities in accordance with social and infrastructure needs in the City and may decommission assets from time to time.
- 4.8 Council's Capital Works Budget evaluation methodology reflects a transparent and systematic approach that is aimed at ensuring the recommended capital projects deliver a benefit to the community that is commensurate with the cost.

### **2.2.5. Debt management principles**

- 5.1 Borrowings will not be used to fund ongoing operations.
- 5.2 A prudent and fiscally responsible approach will be applied in considering any proposals for new debt to deliver Council objectives. This approach will allow Council to consider short term funding proposals for large or urgent projects and for the associated costs to be built into a smoothed forward financial plan.
- 5.3 Where debt is increased, the servicing costs (principal and interest) need to be funded from future revenue streams (generally funded through growth) or cost savings that can be expected from the investment of the funds raised.
- 5.4 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.

### **2.2.6. Pricing Principles**

- 6.1 Prices that are set by Council for services it provides to the community should ideally, but not exclusively, contain elements of the following factors, where possible:
  - 6.1.1 Efficiency – fees are simple and not cumbersome to administer.
  - 6.1.2 Transparency – nature and use of the service is understood by users.
  - 6.1.3 Effectiveness – fees provide value for money for users.
  - 6.1.5 Clarity – users are clear about when and how fees apply.
  - 6.1.5 Equity – fees are fairly applied across a range of users.
  - 6.1.6 Ethics – users with special service needs are not charged excessive fees directly in accordance with the cost of higher servicing requirements.

- 6.2 Prices set for services provided are governed in the first instance by statute and services provided should be priced in accordance with the laid down statutory fees.
- 6.3 Where prices are not regulated by statute, pricing is calculated in accordance with the following formula:

$$P = DC + O + M - S$$

$$P = \text{Price}$$

$$DC = \text{Direct Cost}$$

$$O = \text{Attributable Overheads}$$

$$M = \text{Margin}$$

$$S = \text{Subsidy}$$

This formula requires the service providers to identify and understand the costs associated with the delivery of these services. The inclusion of a margin for services will also encourage providers to be more efficient to compete in the market.

Prices charged to the user will be offset by the application of subsidies approved by Council and by exercising discretion based on capacity to pay. Subsidies need to be identified and assessed to ensure that they are helping Council meet its policy objectives in the Council Plan.

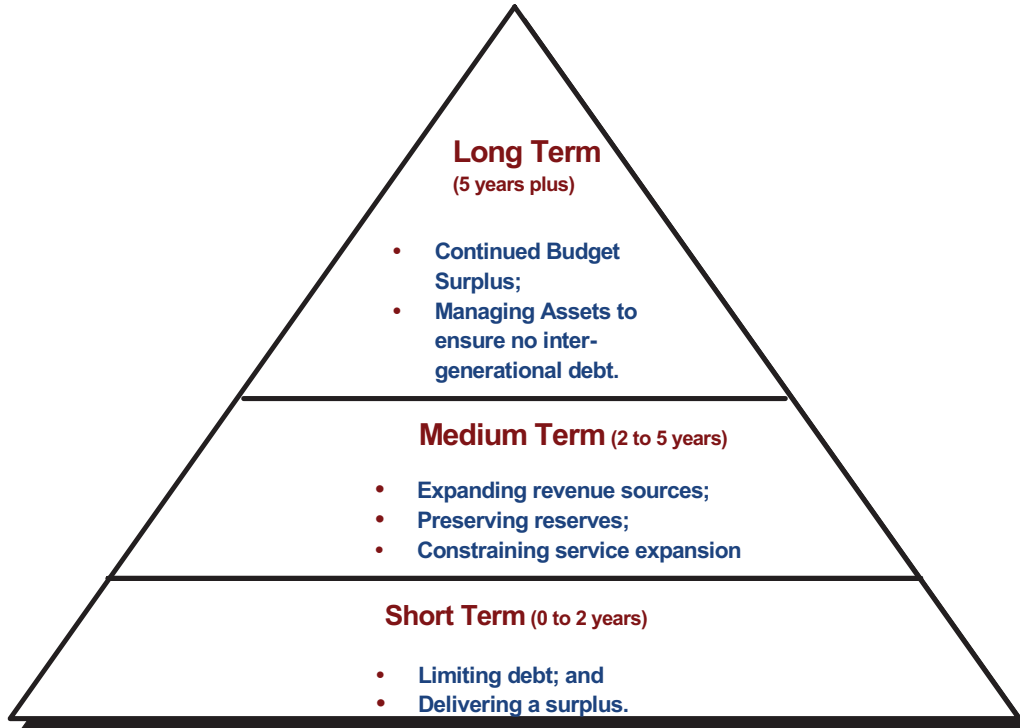
Notwithstanding the above, Council may as part of its regulatory role use pricing as a mechanism for changing behaviour and accordingly set prices for services such as work zone permits, footpath occupancy permits and additional parking permits that exceed the cost and overheads associated with providing the service.



## 2.3 Pyramid of Financial Sustainability

The financial sustainability objectives of the SRP can be demonstrated via a hierarchy of needs basis:

Diagram 2 – Financial Sustainability, Hierarchy of Needs.



## 2.4 Goals and Strategies for CoPP's 2007/08 SRP

### SRP Goal

In pursuit of its objectives, the City of Port Phillip holds central the need for sustainability by ensuring continued operating viability, a positive cash flow, a growing asset base, support if 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 in Table 1 below:

**Table 1: SRP Objectives and Strategies**

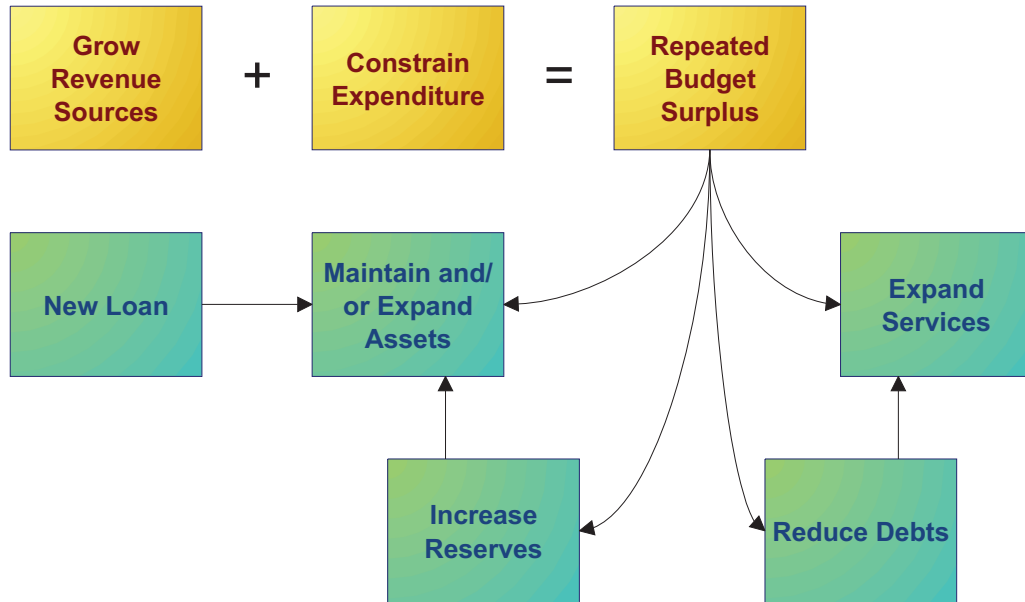
Objective	Strategies	Time frame	Link to FP
1. CoPP will have an ongoing balanced budget and ideally a small surplus.	1. Expenditure on operating activities will be lower than income from operating activities, producing a surplus. Any surplus achieved will be transferred to reserves or carried over to subsequent years.	Short term	2.1 2.2
	2. Rate revenue will remain at a constant percentage of total revenue (target 55%) and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.	Medium	3.1 3.2
	3. Services will be expanded where the expansions are sustainable within operating revenue, or funded by extra revenue.	Medium Term	3.5 3.6
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.	Short Term	4.2
	5. Assets will be managed in accordance with community need, optimum utilisation and long-Term efficiency.	Long Term	4.7
	6. Capital expenditure on existing assets (asset renewals and enhancements) will be higher than depreciation.	Long Term	4.3 4.4
	7. Debt will be reduced progressively so that the cost of debt servicing can be redirected into service delivery, where appropriate.	Short to medium Term	5.4
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 assure operational liquidity.	Short Term	2.3
	9. Council will consider new loans for funding community capital works projects that will be supported by other cost efficiencies, supplemented by revenue streams or will enhance service delivery.	Medium Term	5.2
	10. Investments will be based on increasing reserves to fund periodic large capital expenditure items.	Medium to Long Term	2.3
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.	Short to Medium Term	4.6
	12. CoPP will provide new assets in a way that assists in clustering community assets for social, service delivery and financial effectiveness.	Short to Medium Term	4.7
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.	Short to Medium Term	
	14. CoPP will support the development of policy and practice in the workplace and community to increase organisational effectiveness.	Short to Medium Term	

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### 2.4.1 Goals and Strategies Relationship

The relationship between the SRP objectives and strategies is illustrated below:

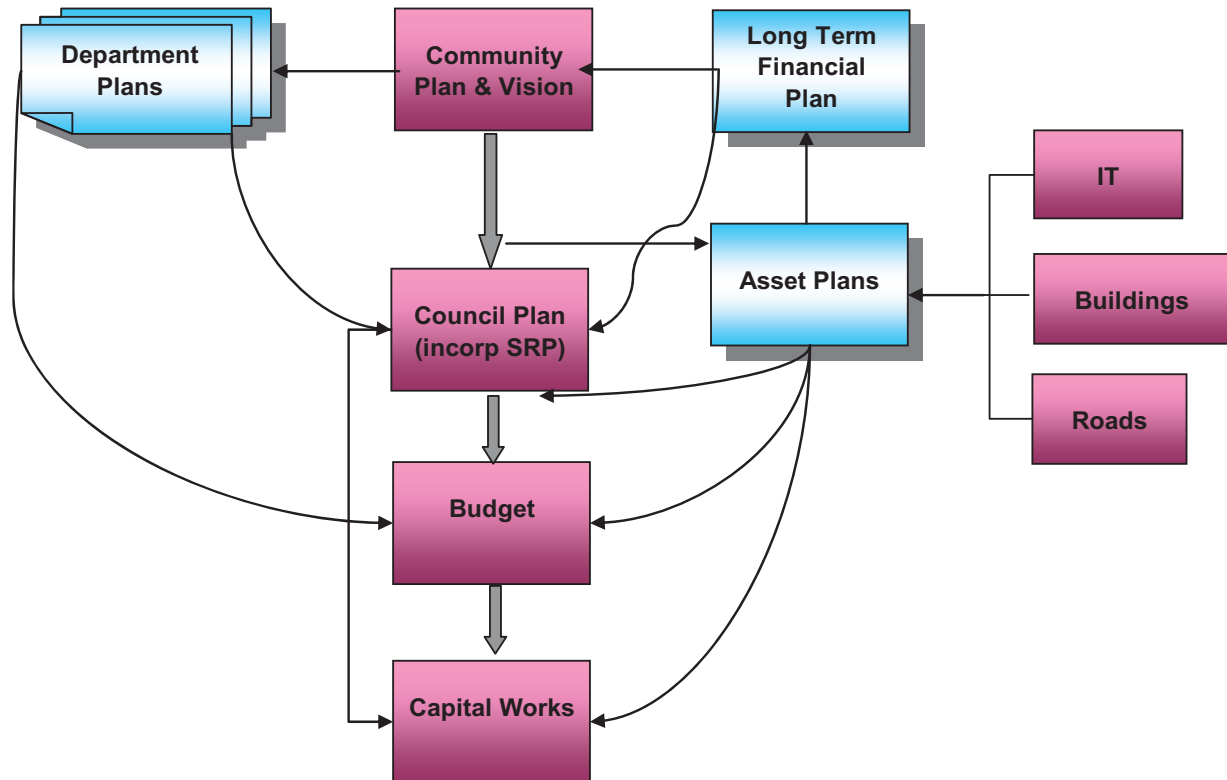
Diagram 3 – SRP Objectives and Strategies



### 3. OUR PROCESS- CYCLE OF INTEGRATED PLANNING

CoPP's planning process is summarised in the diagram below.

Diagram 4 – Integrated Planning



Council has as a key financial objective, the long term financial sustainability of the municipality which gives it the capacity to achieve its key corporate objectives as specified in the Council Plan. The relationship between these objectives is documented to assist in the achievement of three supplementary goals:

- Improved transparency in implementing the Council Plan and a more clearly demonstrated link between the Council Plan and the Budget.
- A documented means of measuring performance against declared goals and targets.
- Enhanced public accountability in having a Budget that is more easily understood by residents and ratepayers.

Contemporary municipal budgetary practice required that a long term Financial Plan should be linked to the Council Plan, Budget and Schedule of Capital Works. The long term Financial Plan sets the parameters for the Annual Budget. It is used to ensure that current operating trends, including the rate of growth for each revenue and expenditure item, are sustainable. It is used also to ensure that normal municipal operations generate sufficient cash flow to fund capital and borrowing commitments, renewal and maintenance of fixed assets occurs at an appropriate time and to review the financial viability of controlled entities.

Council also conducts a regular mid-year budget review, at which financial performance is assessed against budget. Significant forecast changes are made to the budget during this time and communicated to the public.

A draft of CoPP's long term Financial Plan is completed by February each year. This allows time for targets to be established during the long term financial planning process to guide the preparation of the Annual Budget via key budget assumptions. The Annual Budget sets out CoPP's service delivery objectives for the forthcoming year, as expressed in the Council Plan, in financial terms. The Budget financials are supported by business plans detailed to department level, this enables the reader to obtain an understanding as to how revenue and expenditure levels are set and then how rating levels are determined.

The Council Plan and Annual Budget reports (incorporating Capital Works) are both subject to a public review process, where public submissions/queries are considered by Council prior to finalisation of these reports.

### **3.1 Reliability from Modelling**

The Financial Plan model includes a series of assumptions about future developments. A number of the assumptions assess expected developments such as changes in the consumer price index, average weekly ordinary time earnings (A.W.O.T.E.) and interest rates. Other assumptions are more about how the Council intends to manage the controllable elements of its environment, e.g. pricing, investment strategy, labour costs (Enterprise Agreement).

Broader environmental assumptions taken into account by divisional managers in the development of annual departmental service plans, that follow the objectives of the long term financial model, are overlaid against a wide number of contextual or environmental considerations. The Executive Team has agreed that the City of Port Phillip is likely to operate in the following environment for the next five to ten years:

Increasing Community Expectations – There will be a higher demand for tailor made solutions which resolve individual expectations and increased use of electronic media, particularly 'e' business solutions, leading to an expectation of service 24 hours a day, seven days a week.

Demographic Profile – CoPP is a highly mobile community with an increased number of couples without children and people who live alone particularly in the 25 to 60 year old age group. Many occupy accommodation in apartment developments around the municipality in areas such as St Kilda Road and Port Melbourne. This has an impact on our capacity to keep the community well informed and contributing to community life. Conversely, numbers of pre-school aged children have increased placing growing demands on the child care and early education service in the city and this trend is expected to continue. Socially marginalised and low income groups remain a small but significant part of our population and require access to the full range of opportunities and services.

Economic Development – Capital works programs in shopping centres and community markets will be targeted in assisting the health of the local economy with the cost of works partially offset by special rates raised on traders.

E-Commerce – The general expansion of electronic services and significant growth in internet technology within the wider community for recreational and business purposes leaves Council eager to promote its own services using new technologies.

The current eServices portal provides the ability to lodge customer requests and apply for land information and building certificates online. eServices allows our customers to pay a number of council fees and charges online. The next phase will see an increase in the number of transactions possible via the internet, particularly focussing on permit lodgement (development and parking) and permit renewals.

Council is involved in a federally funded initiative to provide customers with the ability to access property information prior to lodging a planning permit and then providing the option to lodge a permit online. This service will be delivered via the current eServices portal.

Financial Capability – as the baby boomers exit the workforce, our revenue will be levied on a shrinking working population base. Council's rate revenue may weaken as apartment dwellings become more common in other parts of the metropolitan area.

There are numerous examples of increased responsibilities being passed on to local government by Federal or State legislation with insufficient funding for tasks passed on.

Where Council provides grants and subsidies, the requirement for an open and transparent process is of increasing importance.

Asset Management – Council's asset management plan aims to ensure meaningful and effective levels of service for Council's assets over their entire life cycle whilst ensuring cost-effectiveness, minimum exposure to risk and compliance with statutory and regulatory requirements. Sustainability in the provision of Council assets will require that CoPP's facilities and buildings be used to their optimum levels without compromising community access.

The current year budget adjusted for permanent (ongoing) variations identified in the mid year review is used as the starting point for the model. Assumptions and anticipated developments, borrowings and capital requirements generate a five-year model. This is projected for a further five years on broad assumptions. Internal transfers are also taken into account in generating accurate department projections.

The Five Year Financial Plan includes details of Council's:

- Major revenue streams
- Major expenditure streams
- Capital Expenditure
- Debt repayments
- Asset sales
- Reserve transfers

## **3.2 Performance Monitoring**

The City of Port Phillip uses a range of performance monitoring tools to ensure that its SRP remains on track for successful implementation.

### Budgets

Managers are held accountable to the delivery of their budgets, which are based on organisational targets and service delivery through the regular measurement of operational performances. This is reported via a detailed set of financial reports and departmental KPI measures that ET reviews on a monthly basis. Council reviews operational performance on this basis every quarter.

### Annual Report/Audit

In the CoPP Annual Report, Council is required to:

- Provide reasons for significant variations against the prior year budget and to detail any changes in Council's financial ratios.
- Report on its performance against selected highlights detailed in the Council Plan.

### Best Value

CoPP complies rigorously with the Best Value legislation in its business planning, reporting and continuous improvement process. In 2007/2008 the Council will develop and publicly report a new set of key performance indicators which will fully integrate and demonstrate compliance with the Best Value principles in the delivery of council services.

### Risk

CoPP applies a risk management model that aims to identify major operational business risks in a timely and financial manner and implement increases to address them. Managers are required to operate within their delegated levels of authority and CoPP also has an internal audit plan to back up the statutory external audit process.

The Executive Team oversees CoPP's implementation of the SRP, annual budget and Council Plan. It also sets the risk management framework within which all business units operate.

### Benchmarking

CoPP uses KPIs and other benchmarking to assess its financial performance – particularly against other local government authorities. The Local Government Act Regulations requires councils to report five ratios as part of the annual report. CoPP monitors these ratios, i.e. debt servicing ratio, debt commitment ratio, revenue ratio, debt exposure ratio and working capital ratio. In addition, CoPP reviews its performance against a group of comparable (i.e. inner metropolitan), councils using a wide range of ratios. The various charts below indicate a positive performance, i.e. on the better side of the group average, against most ratios. Significantly, CoPP produces surplus operating results.

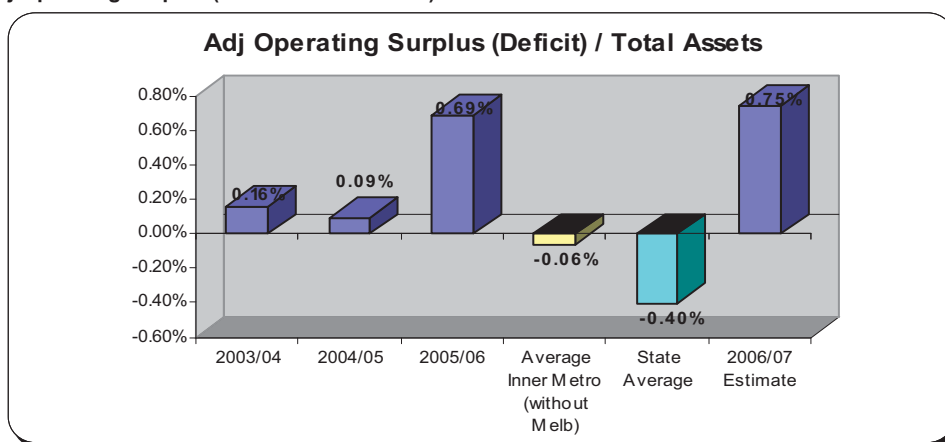
## 4. OPERATIONAL SUSTAINABILITY

<b>OBJECTIVE 1</b>	<b>CoPP will have an ongoing balanced budget and ideally a small surplus.</b>
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The Operating Surplus (Deficit) / Total Assets ratio indicates the proportion of total revenue raised that is retained as operating profit. An inability to record a positive ratio may indicate long-term sustainability issues for Council to address. A negative ratio indicates the asset base is being eroded.

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

Graph 1: Adj Operating Surplus (Deficit / Total Assets)<sup>i</sup>



CoPP's outcome in this measure places it as one of only 27 Councils in Victoria who achieved an underlying operating surplus result. This reflects well on CoPP's performance.

The relevance and importance of measuring underlying surpluses has been highlighted recently in the Auditor General summary of financial audits. It remains important for CoPP's long-term sustainability for surpluses to continue to be achieved in this measure.

**Strategy 1**

**Expenditure on operating activities will be lower than income from operating activities, producing a surplus. Any surplus achieved will be transferred to reserves or carried over to subsequent years.**

Each year we will achieve a financial result that is in surplus. This will be achieved on the operating result, i.e. after adjusting the reported result to exclude all non-operational items and capital funding. This means we will receive more revenue than the expenditure required for operating purposes, ensuring continuous financial sustainability, generating a positive cash flow and contributing to a growth in net assets.

The Financial Plan requires growth in income and constraint on expenditure increases. There will be a continuing review and refocus of existing services and only a small number of service expansion initiatives. Profitable services will be expanded with the range and number of services achieving cost recovery being increased. Council will continue to explore ways of encouraging partnerships and alliances between the public, private and non-for-profit



sectors as a means of increasing the range and quantity of services available to the community.

#### **4.1 Standard Statement A1: Income Statement**

The Income Statement (profit and loss) provides an indication of Council's performance at a current point in time. A positive result, i.e. profit or surplus, ensures the continued growth of Council's total equity which can be utilised for funding of replacement or maintenance or assets in the short term, or build up of reserves to fund assets in the long term, and the potential to expand the delivery of services. Council's Income Statement, extended with a cash conversion, is detailed below:

**A-1 STRATEGIC RESOURCE PLAN**  
**For the years ended 30 June 2008-2012**
**STANDARD INCOME STATEMENT**

	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000
<b>Revenues from ordinary activities</b>					
Rates charges	70,847	73,680	78,101	82,787	87,755
Net parking revenue	22,429	22,945	23,473	24,012	24,565
User fees and charges	13,624	14,074	14,538	15,018	15,514
Open space contributions	1,645	1,415	1,415	1,415	1,415
Grants - Operating	7,647	7,647	7,647	7,647	7,647
Grants - Capital	805	250	250	250	250
Interest received	1,650	1,050	1,050	1,050	1,050
Other revenue	7,952	8,214	8,485	8,765	9,054
<b>Total revenues</b>	<b>126,598</b>	<b>129,275</b>	<b>134,959</b>	<b>140,945</b>	<b>147,249</b>
<b>Expenses from ordinary activities</b>					
Employee benefits	41,412	43,275	45,223	47,258	49,384
Contract services	33,474	34,578	35,719	36,898	38,116
Materials and other expenses	20,332	20,799	21,278	21,767	22,268
Professional services	3,463	3,508	3,554	3,600	3,647
Depreciation and amortisation	13,000	13,200	13,400	13,600	13,800
Finance costs	218	191	161	130	97
<b>Total expenses</b>	<b>111,899</b>	<b>115,552</b>	<b>119,335</b>	<b>123,253</b>	<b>127,312</b>
<b>Operating surplus (deficit) for the year</b>	<b>14,699</b>	<b>13,723</b>	<b>15,624</b>	<b>17,691</b>	<b>19,937</b>
<b>CONVERSION TO CASH</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Less cash costs not included in the operating result</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Capital works program	19,500	22,658	20,455	19,600	19,400
Capital carry over	0	0	0	0	0
Capital expenditure	3,339	3,095	3,085	3,235	3,404
Southport NH contributions/(recoveries)	0	(300)	(300)	(300)	(300)
Loan repayments	4,497	466	495	526	559
Transfers to/(from) statutory reserves	(655)	(85)	(85)	(85)	(85)
Transfers to/(from) general reserves	1,104	(2,650)	(1,500)	1,000	(1,000)
<b>Sub Total</b>	<b>27,784</b>	<b>23,183</b>	<b>22,150</b>	<b>23,976</b>	<b>21,978</b>
<b>Plus non cash costs included in operating result</b>					
Depreciation	13,000	13,200	13,400	13,600	13,800
<b>Surplus/(deficit) for the year</b>	<b>(85)</b>	<b>3,740</b>	<b>6,874</b>	<b>7,316</b>	<b>11,759</b>
Accumulated position brought forward	353	268	4,008	10,882	18,198
B/forward surplus to fund capital carry over	0	0	0	0	0
<b>Surplus / ( Deficit) Carried Forward</b>	<b>268</b>	<b>4,008</b>	<b>10,882</b>	<b>18,198</b>	<b>29,957</b>

Council has in the past used as its primary financial planning document the rates determination statement which gives a “snapshot” view of the key financial drivers of the municipality. This statement has not been superseded by the new standard statement above, which includes a conversion to cash outcome. It provides the reader with a view of the organisation’s ongoing revenue and expenditure flows as well as the annual investment that it makes in capital works. The statement is cash based and also includes details of changes in the Council’s debt levels, asset sales and transfers to and from its discretionary and statutory reserves. Council’s annual surplus or deficit is based on the cash conversion format and this statement is the preferred financial planning document due to the overall picture it provides to the reader and its comparability with previous financial plans.

### **Key Information Relayed by the Income Statement**

The Income Statement (Profit and Loss) highlights a number of key points:

- The 2007/2008 Operating Budget projects an operating surplus of \$14,699M, after raising rates and charges of \$70.847M. In order to achieve Council’s objectives while maintaining service levels and a robust capital expenditure program, the total rate bill is projected to increase by 5.76% in 2007/2008.
- After accounting for non operating cash items (capital expenditure, loan repayments and reserves transfers) and non cash items (depreciation, and the estimated surplus from 2006/2007) Council anticipates a budget surplus of \$268K.
- While the City’s current operating position is strong, it needs to be noted that reserves are being drawn down to fund capital works for the Town Halls strategy, remediation costs for the Gasworks site, St Kilda foreshore development, and the South Melbourne Market and repayment of debt.
- Wage growth will continue to impact on Council operations (4.5% allowance in 2007/2008).
- Reductions in government funding have also been factored in with grants projected to remain unchanged in future years.

In broad terms, the forecast for the following 5 years is based on the following annual assumptions:

- The expected inflation rate (CPI) for the 2007/2008 budget is 2.3%.
- Labour costs will increase by 4.5% in 2007/2008, and 4% thereafter. An allowance of 3.5% has been made for salary increments arising from the EB with an additional 1% for banding movements and reclassifications.
- Staff numbers to remain static.
- Service expansion will be funded by substitution.
- Rates revenue will increase by 5.76%
- Government Grants will remain constant.
- Capital Revenue will remain constant.
- Fees and Charges increase by 3.3%.
- Parking Revenue increases by 2.3%
- Other income increases by 3.3%
- Contract Services increases by 3.3%.
- Materials and Other cost increases by 2.3%
- Professional Services increases by 1.3%

## 4.2 Income

### Strategy 2

**Rate revenue will remain at a constant percentage of total revenue (target at 55% and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.**

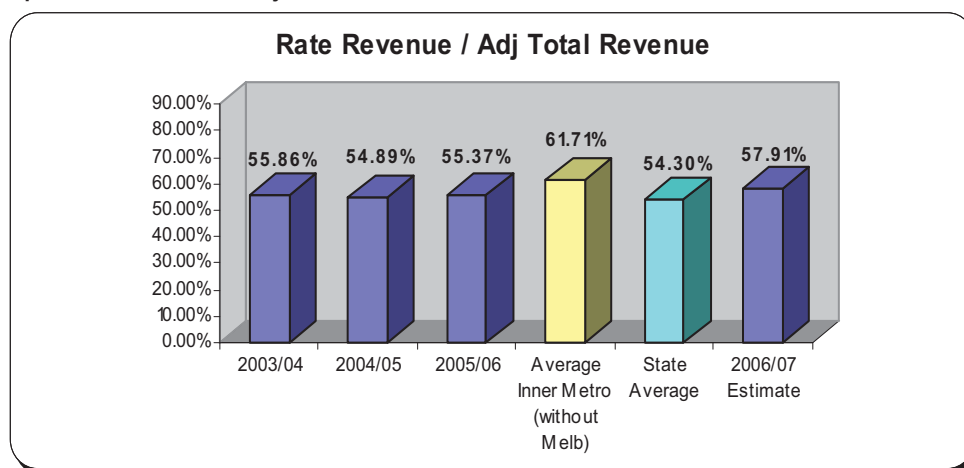
The broad scope of this strategy ensures that income will be increased to assure financial viability. Specifically, income will be sufficient to provide for operational expenditure, capital investment and debt management.

### 4.2.1. Rates

Council aims to constrain general rate increases to a level that maintains the real dollar value of revenue generated from individual properties and limits increases over this to levels that can be justified by its Council Plan Strategy (e.g. capital works). Rate increases will be undertaken in a manner that minimises the social and economic impact of increases for disadvantaged groups. Income from rates is forecast to rise in 2007/2008. The movement in rates has three components: price (CIP), volume (number of properties serviced), and additional capital improvements within the municipality.

The ratio of Rate Revenue / Total Adjusted Revenue shows revenue raised by general rates, expressed as a percentage of total revenue as adjusted by removal of abnormal items. Rate income is a secure and predictable source of revenue. A low ratio can warn of undue reliance on other forms of revenue, which may or may not be sustainable – such as Government grants. A high ratio may indicate that Council has not pursued alternative revenue sources effectively.

Graph 2: Rate Revenue / Adjusted Total Revenue



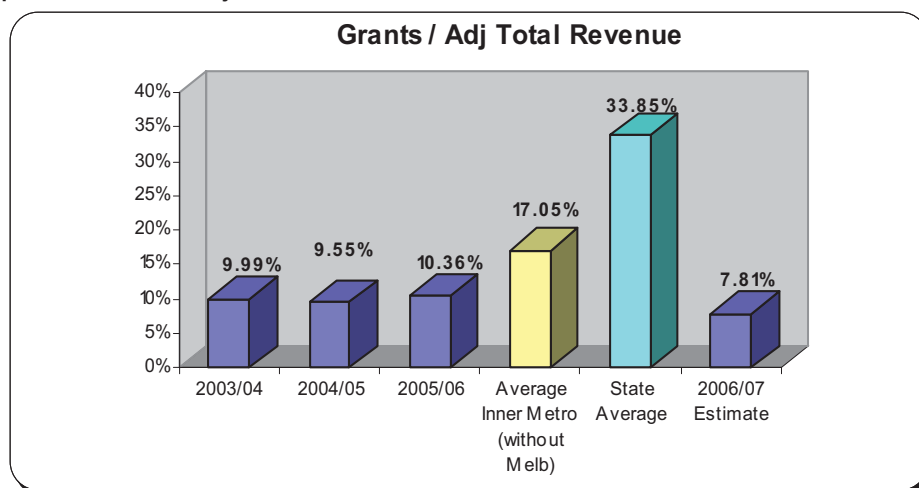
The graph shows CoPP's reliance on Rate Revenue, as a percentage of its Total Revenue base, has remained steady in prior years, and is less than the average for the like Council grouping but trending upwards to 58%, which is just above the 55% target, due to reductions in the City's other sources of revenue such as fees and charges/ parking income. Rates grew in dollar terms by 6.9%, but this growth is not matched in total revenue due to government grants and capital grants revenue projected to remain static. Council is committed to increasing its proportion of revenue from sources other than general rates.

## 4.2.2. Grants

Although Council seeks to maximise revenue from State and Federal government agencies within the limits of policy set by the Council Plan, grants are forecast to remain steady. Grants will be pursued as a priority, and as the preferred manner of partnering with State or Federal authorities in service delivery, but not at the expense of overall policy objectives or priorities. In general, councils have limited income generation opportunities, as over recent years, there has been a general reduction in government grants with both State and Federal governments shifting costs to local government by divesting service delivery to local government.

The Grant Revenue / Total Revenue ratio compares the amount received from Government Grants to the Total Revenue figure. A decreasing trend may indicate a reduced level of financial commitment from other tiers of government, thus increasing pressure on CoPP. A strong fees and charges component reduces the percentage of grants income from the total revenue base.

Graph 3: Grant / Total Adjusted Revenue



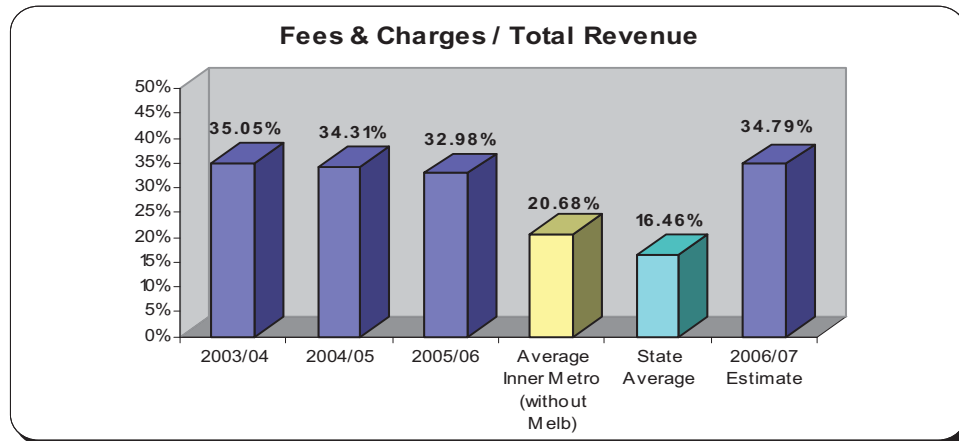
CoPP's grant income is very low, and is significantly below the group average, and the State average as a result of higher dependence on grant revenue by rural Councils. This may also reflect the State Government's apparent reluctance to provide funding given Port Phillip's socio-economic profile and given CoPP's other funding sources (especially parking revenue)

## 4.2.3. Fees and Charges

In broad terms, Council services are required to set fees sufficient to ensure recovery of the full cost of providing services whilst applying appropriate concessional rates for hardship. Fees and charges are set to increase by CPI plus an additional 1%. Where appropriate, charges must provide sufficient impact to ensure an appropriate community behavioural response, i.e. parking fines, library fines etc.

Council ensures that service delivery fees provide a sensitive response to the social and economic needs of the community via targeted service delivery, a structure of concessions and discounts, and suitable arrangements to pay.

The Fees and Charges Revenue / Total Revenue ratio compares the amount received from Fees and Charges to the Total Revenue figure. A decreasing trend may put pressure on Council's ability to continue to provide both operational services and capital works and may require Council to source additional income from rates or loan borrowings.

**Graph 4: Fees and Charges / Total Revenue**

CoPP performs well in terms of its fee revenues and the income it receives via the parking fees and fines. This income provides an invaluable source of revenue to Council contributing strongly to its less than average reliance on rate revenue as a percentage of its total revenue base. This is a current Council priority.

#### **4.2.4. Interest on Investments**

In line with the requirements of the Local Government Act and Council's Investment Policy, the objective for Council when placing investments is to take advantage of the interest earning potential of Council's surplus funds while reducing its exposure to financial risk and ensuring sufficient funds are kept available to meet cash requirements. The CoPP investment policy recommends that Council places funds:

- With an Approved Deposit Taking Institution with a minimum credit rating of BBB+ for investments up to 90 days, and a minimum credit rating of A- for investments up to 2 years.
- With a maximum of 35% of the total investment portfolio where total funds are in excess of \$20M, and maximum of 50% of the total portfolio where total funds are less than \$20M.
- In bonds, debentures, term deposits, negotiable certificates of deposit, bank bills, transferable certificates of deposit floating rate notes, floating rate certificates of deposit and cash deposits.
- At rates higher than or equal to the RBA discount rate.

#### **4.2.5. Proceeds from Sale of Assets**

Asset sales are to be undertaken only where a cost benefit case indicates the effectiveness of the asset sale in relation to Council or community use.

#### **4.2.6. Contributions**

Private sector contributions to infrastructure development will be pursued as a major source of revenue for the provision of the ongoing infrastructure and service requirements of the Port Phillip community.

#### **4.2.7. Borrowings**

Liquidity will be leveraged through the conservative use of debt financing to provide financial flexibility to the organisation. The prudent management of debt levels is therefore a component for ensuring the sustainability of the Council.



## 4.3 Expenditure

Strategy 3
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<b>Services will be expanded where the expansion is sustainable within operating revenue, or funded by extra revenue.</b>
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The broad scope of this strategy identifies that:

- Expenditure will be set at levels sufficient to ensure the continued delivery of services to the residents and ratepayers and maintenance and growth of physical assets.
- Services will be exposed to competition via benchmarking, outsourcing and tendering to achieve continuous improvement and cost control. This is supported by the Best Value process as implemented by CoPP.
- Efficiency and productivity improvements will be achieved through investment in technology and new systems.
- Where investments in capital don't produce savings in labour, they should enable significant improvements in output and service.
- Expenditure levels will be set subject to the diverse needs of the community, within the overall limits of supporting income streams.

### 4.3.1. *Employee Costs*

Increases in employee costs are to be minimised through the pursuit of efficiency improvements, the application of cost-saving or service-improving technology, continuing training of Council staff and the sensitive management of employee health matters. Staff numbers will remain static. Wage costs are expected to move in line with Enterprise Bargaining Agreements entered into by CoPP.

### 4.3.2. *Materials and Other Costs*

Council seeks to confine increases in materials and other costs in the 2007/2008 financial year and has budgeted for an increase in line with inflation (2007/2008 CPI 2.3%), less 1% in this type of expenditure (total increase budgeted 2007/08 1.3%).

### 4.3.3. *Contracts*

Contract costs are expected to increase by the expected the rate of inflation (2.3% in 2007/2008) except where a deliberate decision is taken to replace Council supplied services with contracted services or vice versa, or funding is received from external sources to fund a particular program.

## 5. FINANCIAL, STRENGTH AND ASSET GROWTH

<b>OBJECTIVE 2</b>	<b>The CoPP asset base will be maintained, enhanced and expanded.</b>
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The financial position will improve annually as a result of positive operating results. In addition Council's equity will increase due to periodic valuations of Council assets.

The incorporation of the statement of financial position (balance sheet) in the long term financial plan is important as it provides information about the City's assets and liabilities and is essential in the forecasting of cash flows. Consequently, it is a key tool for determining overall financial sustainability.

### 5.1 Standard Statement A2: Balance Sheet Statement

A-2 STRATEGIC RESOURCE PLAN  
As at 30 June 2008 - 2012

## STANDARD BALANCE SHEET

	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash assets	13,708	11,676	15,079	23,924	33,213
Receivables	10,827	10,827	10,827	10,827	10,827
Accrued income	817	817	817	817	817
Prepayments	652	652	652	652	652
<b>Total Current Assets</b>	<b>26,004</b>	<b>23,972</b>	<b>27,375</b>	<b>36,220</b>	<b>45,509</b>
<b>Non Current Assets</b>					
Other financial assets	5	5	5	5	5
Receivables	2	2	2	2	2
Property, infrastructure, plant and equipment	1,519,172	1,531,725	1,541,865	1,551,100	1,560,104
<b>Total Non Current Assets</b>	<b>1,519,179</b>	<b>1,531,732</b>	<b>1,541,872</b>	<b>1,551,107</b>	<b>1,560,111</b>
<b>Total Assets</b>	<b>1,545,183</b>	<b>1,555,704</b>	<b>1,569,247</b>	<b>1,587,327</b>	<b>1,605,620</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Payables	7,192	7,192	7,192	7,192	7,192
Trust funds	591	591	591	591	591
Provisions	6,360	6,360	6,360	6,360	6,360
Interest bearing liabilities	466	495	526	559	594
<b>Total Current Liabilities</b>	<b>14,609</b>	<b>14,638</b>	<b>14,669</b>	<b>14,702</b>	<b>14,737</b>
<b>Non Current Liabilities</b>					
Provisions	1,297	1,297	1,297	1,297	1,297
Interest bearing liabilities	2,807	2,312	1,785	1,226	632
<b>Total Non Current Liabilities</b>	<b>4,104</b>	<b>3,609</b>	<b>3,082</b>	<b>2,523</b>	<b>1,929</b>
<b>Total Liabilities</b>	<b>18,713</b>	<b>18,247</b>	<b>17,751</b>	<b>17,225</b>	<b>16,666</b>
<b>Net Assets</b>	<b>1,526,470</b>	<b>1,537,457</b>	<b>1,551,496</b>	<b>1,570,102</b>	<b>1,588,954</b>
<b>EQUITY</b>					
Accumulated surplus	579,406	593,129	608,753	626,444	646,381
Asset Revaluation Reserve	939,220	939,220	939,220	939,220	939,220
Other Reserves	7,844	5,108	3,523	4,438	3,353
<b>Equity</b>	<b>1,526,470</b>	<b>1,537,457</b>	<b>1,551,496</b>	<b>1,570,102</b>	<b>1,588,954</b>

## 5.2 Asset Management

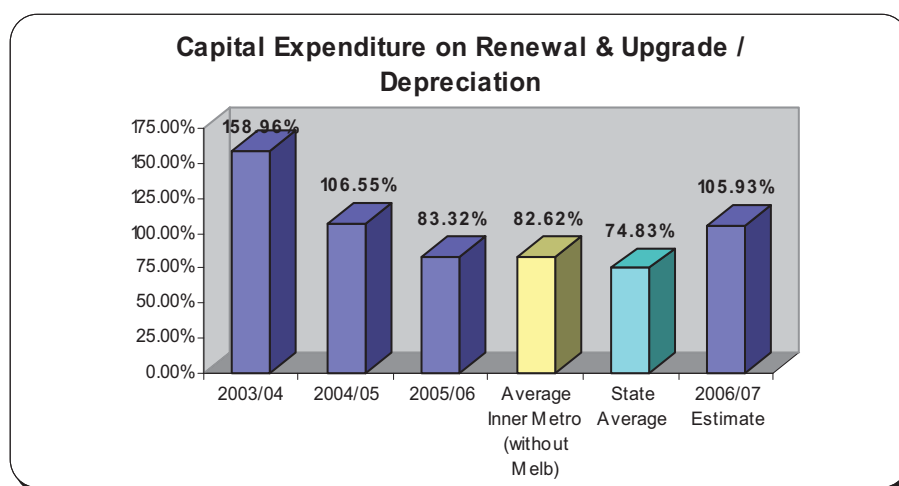
Strategies 4-6.
<b>The total pool of assets will increase in value each year – excluding the effect of any revaluation.</b>
<b>Assets will be managed in accordance with community need, optimum utilisation and long term efficiency.</b>
<b>Capital expenditure on existing assets (asset renewals and enhancements) will be higher than depreciation.</b>

The broad scope of the above strategies can be summarised as follows:

- Council's key balance sheet objectives are to ensure the relevance and currency of its fixed assets and the maintenance of debt and cash flow at levels that will ensure the ongoing sustainability of its service delivery to the Port Phillip community.
- We will invest in the maintenance, renewal and replacement of assets at a greater rate than they deteriorate or wear out, i.e. at a greater rate than depreciation.
- We will undertake efficient maintenance to ensure that the condition of infrastructure and community assets remains optimal and that the assets remain relevant to community needs.
- Borrowings for capital expenditure will be required to be self-funding, i.e. justified by cost benefit analysis, or justifiable in terms of asset replacement requirements.

The Capital Expenditure on Renewal & Upgrade / Total Depreciation ratio presents the total capital expenditure on asset renewal and asset upgrade as a percentage of total depreciation. An indicator of less than 100% may indicate that Council is not sustaining its asset base.

**Graph 5: Capex on Renewal & Upgrade/ Depreciation**



The capital expenditure on renewals & upgrades compared to depreciation highlights that CoPP has been reasonably committed to ensuring the majority of capital works are being targeted and addressing the issue of renewal of existing infrastructure. Council's expenditure is in line with the group average and the State average, and is projected to increase above the 100% benchmark in future years as works on carried over projects are expected to increase.

## 5.3 Debt

Strategy 7.

**Debt will be reduced progressively so that the cost of debt servicing can be redirected into service delivery.**

Servicing costs on debt can have the effect of reducing the amount of funds available for service provision, therefore our overall objective is to minimise our reliance upon debt.

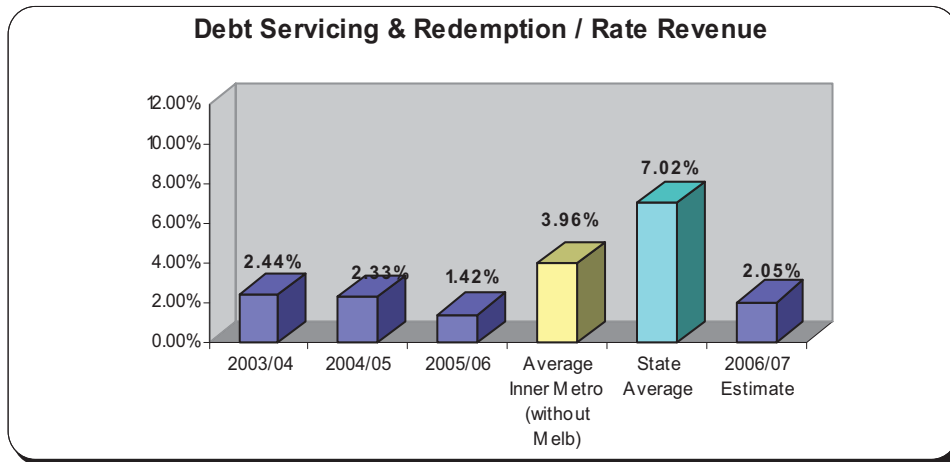
The purpose of the borrowing strategy is to provide the City with a longer-term view of the borrowing requirements of the Council and the level of borrowings that is sustainable. CoPP's borrowings philosophy is that, as a general rule, the City will not borrow externally to fund operational requirements; however, we recognise that we will be best served sometimes to borrow money to pay for large capital works.

### 5.3.1 Council's Debt Performance

- (i) With total debt as a percentage of net realisable assets at 0.75% (2005/06 actuals) the City of Port Phillip compares favourably with the average for comparable councils of 1.31% and a State average of 5.14%.
- (ii) An indication of the Council's strong position is its interest cover ratio, which is an indication of its ability to meet ongoing interest bills and therefore service its debt. In 2005/06, the ratio for the City of Port Phillip is 15:1, meaning it has \$15 of net income to use for every dollar of interest payments it must make. This indicates the Council will have sufficient capacity to take on a significantly higher level of debt in the future in order to finance capital projects.
- (iii) In terms of its debt servicing costs, the City of Port Phillip spends 1.42% of its Rate revenue on borrowing costs (2005/06). This compares favourably to 3.96% for similar Victorian council's and the 7.02% average for the State overall.

The Debt Servicing & Redemption / Rate Revenue ratio shows the amount of loan interest and principal paid compared to Rate Revenue.

**Graph 6: Debt Servicing & Redemption/ Rate Revenue**



The above graph portrays the declining trend that Council has achieved in its level of indebtedness over the past three years, which is projected to slightly increase in 2006/07.

The CoPP is now repaying some \$500K-\$600K per annum of its debt, with no new borrowings. The budget proposes applying some of Council’s investments towards the early repayment of once of the two bank loans it has outstanding (\$4.058M).

## 6. REMAINING LIQUID

<b>OBJECTIVE 3.</b>	<b>Liquidity will be maintained at levels that assure adequate working capital without the need to resort to borrowings or a bank overdraft.</b>
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CoPP aims for its cash flow from operations to be adequate to fund capital and borrowing commitments.

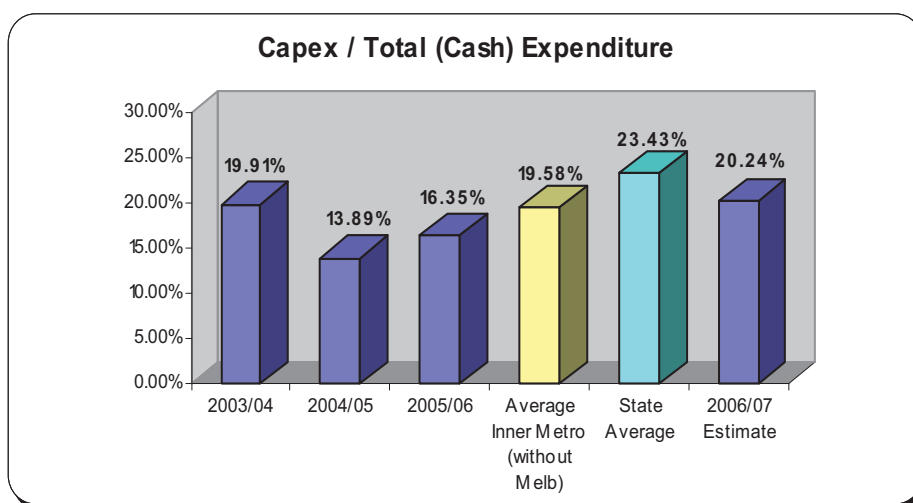
The movements in Working Capital are based on assumptions that point to no significant change in debtors or creditors.

## 6.1 Capital Outlay and Rates Inflow

### 6.1.1. Capital Outlay

The Total Capital Outlays / Total Cash Outflows ratio presents the total capital outlays as a percentage of total cash expenditure (excludes depreciation, includes capital expenditure). A decreasing trend may indicate an inability to renew assets as they reach the end of their useful lives. This indicator measures the total capital spent and includes funding of new assets in addition to asset renewal. Large capital grants and Council borrowings affect this measure significantly, where major projects that attract these capital funds will cause this result to improve periodically.

Graph 7: Total Capital Outlays/ Total (Cash) Expenditure



As distinct to the many ratios where CoPP performs strongly, its performance in delivering capital works has been below the averages for similar municipalities and placed CoPP as the 6<sup>th</sup> lowest in terms of capital works effort. As a long established council, CoPP funds a lower rate of new capital works when compared to emerging municipalities, and for the 2005/06 year there was a large capital works carry over of \$17.595M (2004/05- \$10.4M). CoPP also offers a wider range of services than some of its neighbouring councils, specifically in the following areas:

- Human services, incorporating Arts and Festivals;
- Town planning, incorporating strategic and statutory planning;
- Foreshore, incorporating tourism and beach cleaning.

CoPP's Capital Works programs are heavily reliant on rates and reserves funding. CoPP's sources of Capital funding proposed for the 2007/07 budget are detailed at Table 2 below:

Table 2: Capital Works Expenditure Funding Sources

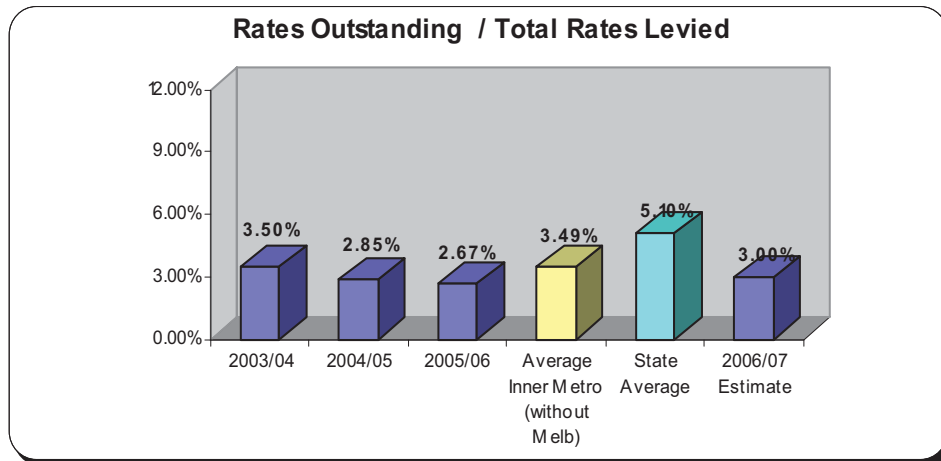
Sources of Funds	Budget 2007/2008 \$'000
External Income (Grants, Contributions, etc)	805,000
Rates & General Reserve Requirements	14,911,600
Resort & Recreation Reserves	2,300,000
Sustainable Transport Reserves	525,000
Other Reserves	800,000

<b>Gross Budget Total</b>	<b>19,341,600</b>
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### 6.1.2. Rates Inflow

The Rates Outstanding / Total Rates ratio is the percentage of levied rates that remain unpaid at the end of the year. An increasing trend may demonstrate inefficiency with rate collection that will ultimately place pressure on Council’s liquidity. The indicator is a good measure of the efficiency of the collection process. Industry Best Practice is under 2%.

**Graph 8: Rates Outstanding/ Total Rates Levied**



The trend in this ratio over the past three years has been one of a decreasing level of outstanding rates compared to the total rates levied. This positive trend is expected to slightly increase to 3% for the 2006/07 financial year. This has been due to improved follow up on overdue rates collections, as well as proceedings for sale of a number of properties under Section 181 of the Local Government Act, which gives Council the power to sell property or transfer land to itself in the event that rates monies owed are more than 3 years overdue, and no arrangements for payment have been entered into.



## 6.2 Reserves

Strategy 8.
<b>General reserves will be maintained at levels sufficient to assure operational liquidity.</b>

CoPP's general reserves will be managed in a way that ensures adequate funds are available for the delivery of significant capital projects aimed at improving Council's services in the community. The use of reserves will be fiscally responsible, i.e. well targeted to community needs and at rates that do not jeopardise Council's working capital requirements. Council's budgeted reserves balances projected for 2007/2008 are summarised at table 3 below:

**Table 3: CoPP Reserves Summary**

RESERVE DESCRIPTION	AMOUNT \$000	STATUTORY	CASH BACKED
General Reserve <ul style="list-style-type: none"> <li>Aggregates a number of specific purpose reserve funds including public housing and tree root damage</li> </ul>	5,287	N	Y
Sustainable Transport Reserve <ul style="list-style-type: none"> <li>Funds held for Sustainable Transport initiatives, funded by parking permit fees.</li> </ul>	441	N	Y
Resort and Recreation Reserve <ul style="list-style-type: none"> <li>Developer levies required for expenditure at a later date on recreational infrastructure.</li> </ul>	1,114	Y	Y
Car Park Reserve <ul style="list-style-type: none"> <li>Developer contributions for expenditure at a later date on car parks.</li> </ul>	863	Y	Y
Asset Revaluation Reserve	939,220	N	N
C13 Infrastructure Reserve <ul style="list-style-type: none"> <li>Developer Contributions for expenditure at a later date on infrastructure</li> </ul>	139	Y	Y
<b>Total</b>	<b>947,064</b>		

### 6.2.1. General Reserve Movements

- General reserves will reduce over the next 2 year period to fund the Town Hall works program and the site remediation works.
- Operational surpluses achieved will be transferred to reserves in line with SRP Strategy 1, to replenish reserve balances.

## 6.3 Debt

Strategy 9.

**Council will consider new loans for funding community capital works projects that will be supported by other cost efficiencies or supplemented by revenue streams.**

Council is committed to a debt minimisation strategy in order to free up debt servicing costs for service operations. However, new borrowings will be considered for capital works projects that will generate revenue or add to the value of the investment.

## 6.4 Investment

Strategy 10.

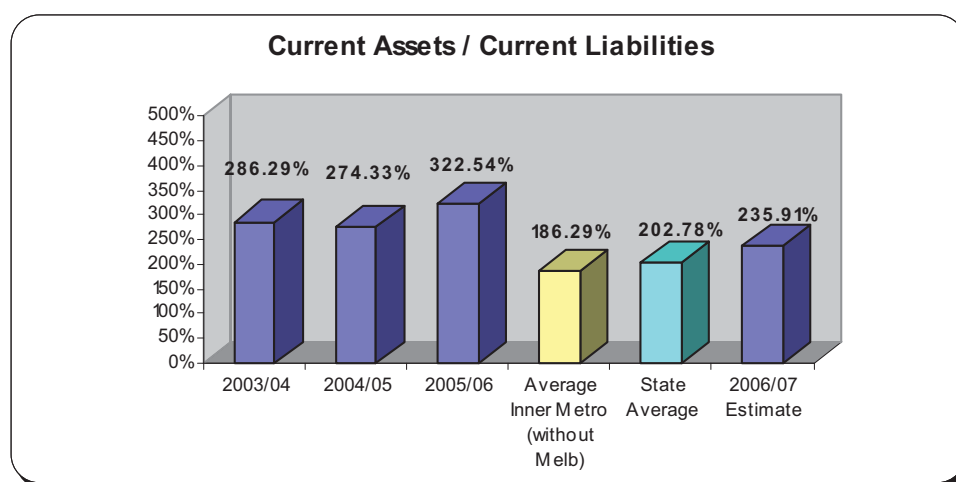
**Investments will be based on increasing reserves to fund periodic large capital expenditure items.**

We will manage our investments to optimise returns but remain risk-averse. Ensuring we retain maximum flexibility in supporting liquidity objectives, our investments will be predominantly short term. The result of this approach will be to preserve a strong working capital position.

### 6.4.1. Working Capital Ratio

The Current Assets / Current liability ratio is the traditional Working Capital Ratio that is widely used in private enterprise and is a mandatory performance measurement for Local Government. A decreasing trend, and in particular a ratio below 100%, may indicate Council cannot meet its current debt obligations, i.e. debts that will be due within the current twelve month period.

Graph 9: Current Assets/ Current Liabilities



CoPP's ratio for Working Capital in 2005/06 was 322.54%. This outcome is largely driven by the cash at bank (\$2.93M) and bank bills (\$25.6M) held at the end of the 2005/06 financial year, as well as strong ongoing financial performance, debt reduction and working capital management.

## 6.5 Standard Statement A3- Cash Flow Statement

The budgeted statement of cash flows is the key financial management tool for establishing the City's cash requirements for both short and long term needs. Linking the budgeted cash position for the year to the long term financial plan helps identify potential problems, providing an opportunity to more closely monitor and manage income and expenditure (including loan management) or pointing to the need to revisit the financial plan. The cash flow forecast includes both recurrent and non-recurrent operations.

**A-3 STRATEGIC RESOURCE PLAN**
**STANDARD CASH FLOWS STATEMENT**

For the years ending 30 June 2008 - 2012

	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000
<b>Cash flows from operating activities</b>					
Receipts from ratepayers (ie. rates)	72,003	73,680	78,101	82,787	87,755
Payments to suppliers (inclusive of GST)	(35,837)	(38,086)	(39,273)	(40,498)	(41,763)
<b>Net cash inflow (outflow) from customers/suppliers</b>	<b>36,166</b>	<b>35,594</b>	<b>38,828</b>	<b>42,289</b>	<b>45,992</b>
Parking Fees & Fines	22,429	22,945	23,473	24,012	24,565
Government Grants (inclusive of GST)	7,647	7,647	7,647	7,647	7,647
Contributions	1,645	1,415	1,415	1,415	1,415
Capital Grants	805	250	250	250	250
Interest received	1,650	1,050	1,050	1,050	1,050
Other receipts (inclusive of GST)	21,575	22,287	23,023	23,783	24,567
Payments to employees	(41,011)	(43,275)	(45,223)	(47,258)	(49,384)
Borrowing costs	(218)	(191)	(161)	(130)	(97)
Other payments	(19,900)	(20,799)	(21,278)	(21,767)	(22,268)
<b>Net cash inflow (outflow) from operating activities</b>	<b>30,788</b>	<b>26,923</b>	<b>29,024</b>	<b>31,291</b>	<b>33,737</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment	(47,797)	(25,753)	(23,540)	(22,835)	(22,804)
Payments for investments	(2,786)	(2,736)	(1,585)	0	(1,085)
Proceeds from investments	0	0	0	915	0
<b>Net cash inflow (outflow) from investing activities</b>	<b>(50,583)</b>	<b>(28,489)</b>	<b>(25,125)</b>	<b>(21,920)</b>	<b>(23,889)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings					
Repayment of borrowings	(4,497)	(466)	(496)	(526)	(559)
<b>Net cash inflow (outflow) from financing activities</b>	<b>(4,497)</b>	<b>(466)</b>	<b>(496)</b>	<b>(526)</b>	<b>(559)</b>
<b>Net increase (decrease) in cash held</b>	<b>(24,292)</b>	<b>(2,032)</b>	<b>3,403</b>	<b>8,845</b>	<b>9,289</b>
Cash at the beginning of the year	38,000	13,708	11,676	15,079	23,924
Cash at the end of the year	13,708	11,676	15,079	23,924	33,213
<b>Reconciliation of Operating Result and Net Cash Flows from Operating Activities for the year ending 30 June</b>					
Net surplus/(deficit) from operations	14,699	13,723	15,624	17,691	19,937
Depreciation and amortisation	13,000	13,200	13,400	13,600	13,800
Profit (loss) on sale of property, plant and equipment	0	0	0	0	0
Net movement in current assets and liabilities	3,089	0	0	0	0
<b>Net cash inflow (outflow) from operating activities</b>	<b>30,788</b>	<b>26,923</b>	<b>29,024</b>	<b>31,291</b>	<b>33,737</b>

## 7. BUILDING COMMUNITIES

<b>OBJECTIVE 4.</b>	<b>Capital works will address community needs without ignoring long term financial impacts.</b>
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Council is committed to improving the City's physical infrastructure. The Capital Works and Expenditure program set by the City of Port Phillip Council takes into account the following elements when formulating decisions regarding renewals, upgrades, enhancements and new assets:

### Renewals, Upgrades, Enhancements

- Council fully funds the necessary renewals and upgrades of its infrastructure.

This will ensure that the existing service potential of its current asset base is maintained and renewed in an optimal manner while also ensuring that there is sufficient capacity for the delivery of new projects and initiatives.

- 'Enhancement' of assets is a discretionary decision influenced by the availability of resources at a given time, such as initiatives of other levels of government (in the form of grants) or from cash reserves accumulated generally or specifically.

### New Assets

- Asset renewal is important in an industry with low rates of obsolescence and is obviously linked to the rate of consumption of assets.
- A formal link between asset renewal and depreciation will help determine the quantum of spend each year.

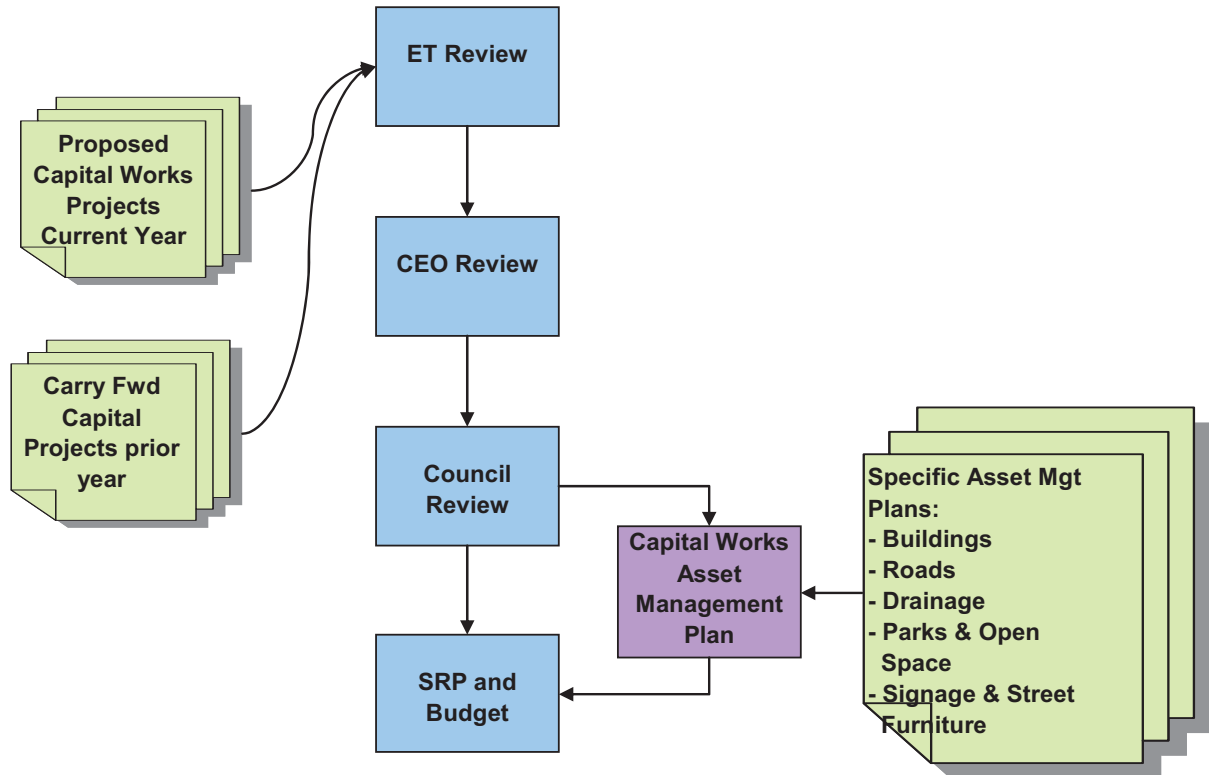
This implies a reasonably sophisticated measurement of condition and regular review, plus sustained political commitment.

- Capital expenditure could be linked to rate revenue based on the premise that the assets in this class have shorter lives, e.g. IT assets and library books. These should be paid for as they are consumed.

## 7.1 Capital Expenditure Program Process

CoPP undergoes a rigorous Capital Expenditure Program approval process as summarised below:

Diagram 5: Capital Expenditure Approval Process



## 7.2 Asset Management Planning

Strategy 11
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<b>CoPP's capital assets will be enhanced and preserved to ensure that Council's service delivery capabilities are maintained and improved where possible.</b>
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Asset management planning covers the provision and renewal of physical assets.

Council draws together its asset management activities under a general asset management plan, below which sit a series of detailed or specific asset management plans for different asset categories (buildings, roads, drainage, signage & street furniture, and parks & open spaces).

A major part of CoPP's activities revolve around the management of its asset portfolio in a manner that ensures that residents and visitors can enjoy the facilities and to ensure that they remain appropriate to community requirements both now and into the future. Our aim is to ensure meaningful and effective levels of service for each asset over its entire life cycle. This involves high levels of planning, renewal, replacement and maintenance of assets. This entails the integration of financial, technical, economic and social data against the assessment of condition of each asset.

Our asset management planning looks at our assets on a day-to-day, routine basis and on a medium-term, strategic basis, from time of conception to the time of retirement. In planning for assets we seek to ensure that they remain service (or community) focussed, cost-effective, support our risk management strategy, are legally compliant and fit with long term service planning and financial strategies.

In particular CoPP aims to:

- Increase the accuracy of our long term financial planning through careful monitoring of asset condition and usage requirements. This helps us to better predict when an asset may require replacement or renewal.
- Ensure value for money from our investments in land, infrastructure and buildings.
- Achieve increased efficiency by increasing the usage of each asset, thereby reducing unit operating costs (maintenance and utilities) and expanding Council's ability to provide well-located and serviceable facilities for the community. One of the larger challenges revolves around the choices regarding the best distribution and location of assets.

### 7.3 New Capital Works

The cost of providing and maintaining assets is high and the use of assets needs to be sufficient to warrant provision of the asset. Increasingly, CoPP is looking for ways of ensuring that assets are cost-effective in reducing operating expenses. Design and usage considerations have equal merit in contributing to reductions in operating expenses.

CoPP is confident that its strategies and procedures will minimise the risk of inter-generational liabilities being created as a result of deterioration in asset condition.

The prioritisation of capital works is reliant upon a range of criteria. Council balances a number of factors in order to ensure the correct mix of works - including:

- Prioritisation for roads, kerbs and channels using a pavement management system.
- Requirements for buildings are generally determined on condition assessment reports.
- Line management justification for replacement and refurbishment type works.

Capital works expenditure is only approved following a detailed prioritisation and cost benefit analysis of each proposal. This relies on the following measures:

- An analysis of the City's existing asset base in terms of the projected rate of expenditure required to achieve replacement of existing assets at rates consistent with an assessment of asset condition.
- The capital expenditure program is adequately informed of any impending 'humps' in required asset investment and that measures necessary to address these requirements are reflected in the long term financial strategy.
- Replacement at the same rate as depreciation is not assumed to be satisfactory.

The plan notes that four variables can invalidate asset replacement strategies based on depreciation:

- Condition assessments may indicate a significantly different timetable for asset replacement than that inferred from book values and depreciation rates (asset life) used for annual accounts.
- Asset schedules may include assets whose useful life may already have been fully written off but for which there is no current plan for replacement.
- Community usage requirements or expectations can change such as to render an asset ready for replacement well before it has reached an equivalent level of depreciation.
- The addition of new assets (as part of the City's annual capital works expenditure program) will add to the subsequent requirement for the replacement of new assets, let alone the need to replace existing assets. New assets mostly bring additional operating expenses that may undermine the City's ability to maintain projected levels of capital expenditure.

## 7.4 Community Centres

Strategy 12.

**CoPP will provide new assets in a way that assists in clustering community assets for social, service-delivery and financial effectiveness.**

Council continues to acknowledge its key role in the provision and management of the infrastructure that supports Council's goal of sustainable communities.

Council recognises that community places and spaces:

- Play a vital role in community building by offering venues that promote the physical, cultural and emotional wellbeing of everyone in our community;
- Can help to build supportive communities by providing central centres offering easy access to local services, information, advice and referral.

Community facilities are able to help provide a sense of identity and social connectedness within local communities and a safe place in which locals of all ages can gather in civic, educational, special interest and recreational activities.

The goal of this policy is to ensure:

- Provision of a sustainable network of CoPP facilities that contributes to community need for facilities that are accessible and equitable venues for recreation, leisure, cultural and educational pursuits.

This is best achieved by consolidating Councils facilities so that they operate under the same policy, principles and guidelines thus encouraging widest use of all facilities by as many different people and groups as possible.

Consolidation will also lead to greater use by maximising the number of people using the facilities and increasing the hours of usage.

- Community spaces become a hive of related activities that are located together or close to each other in order to share resources, audiences and target groups.
- Ideally, community facilities reflect community needs and characteristics by embracing community priorities and being responsive and flexible to expressed and changing community profile and needs.

Vibrant and active community facilities are vital for long-term sustainability of communities and must be user-friendly and serve a clear civic purpose.



## 7.5 Standard Statement A4: Capital Works

The Statement of Capital Works outlines the budgeted key areas of capital works expenditure, detailing the break up of costs of renewals, upgrades and new assets.

<b>A-4 STRATEGIC RESOURCE PLAN</b>	<b>CAPITAL WORKS STATEMENT</b>
<b>For the five years ending 30 June 2012</b>	

Capital Works Area	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000
Buildings	4,282	7,770	7,550	5,550	4,050
Drainage	1,350	1,350	2,000	2,000	2,250
Footpaths	1,680	1,380	1,400	1,500	1,500
Parks & open space	5,030	6,068	4,525	5,300	5,350
Roads	6,608	5,640	4,530	4,800	5,800
Signage & street furniture	550	450	450	450	450
<b>Total capital works</b>	<b>19,500</b>	<b>22,658</b>	<b>20,455</b>	<b>19,600</b>	<b>19,400</b>
<b>Represented by:</b>					
Renewal	10,670	10,845	8,900	10,150	12,000
Enhancement	6,280	7,423	9,005	7,950	5,900
New works	2,550	4,390	2,550	1,500	1,500
<b>Total capital works</b>	<b>19,500</b>	<b>22,658</b>	<b>20,455</b>	<b>19,600</b>	<b>19,400</b>
<b>Reconciliation of net movement in property, plant and equipment</b>	<b>2007/08 \$'000</b>	<b>2008/09 \$'000</b>	<b>2009/10 \$'000</b>	<b>2010/11 \$'000</b>	<b>2011/12 \$'000</b>
<b>Total capital works</b>	<b>19,500</b>	<b>22,658</b>	<b>20,455</b>	<b>19,600</b>	<b>19,400</b>
Asset revaluation increment / (decrement)	0				
Depreciation & amortisation	(13,000)	(13,200)	(13,400)	(13,600)	(13,800)
Capital expenditure	3,339	3,095	3,085	3,235	3,404
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
<b>Net movement in property, plant &amp; equipment</b>	<b>9,839</b>	<b>12,553</b>	<b>10,140</b>	<b>9,235</b>	<b>9,004</b>

## 8. OUR CULTURE, OUR STAFF AND OUR SERVICE

<b>OBJECTIVE 5</b>	<b>CoPP will proactively lead, develop and build organisational culture based on the provision of same day service and a work life balance.</b>
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Strategies 13 & 14

**CoPP will provide leadership and learning to it's 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.**

**CoPP will support the development of policy and practice in workplace and community to increase organisational effectiveness.**

### 8.1 Our Culture

The City of Port Phillip is committed to ensuring we have an organisation that is sustainable, accountable, innovative, and focussed on providing services to our community. What we do is driven by our 5 Key Result Areas. We recognise that *how* we do things is just as important as *what* we do, therefore our 8 principles guide the way we operate and interact with each other to achieve the best possible outcomes for the community. Whilst the organisation deals in a diverse range of areas, we all deliver the same product to the community: service.

In support of our commitment to our service users, we are also building a culture which focuses on outcomes and supports risk and innovation within parameters of accountability.

### 8.2 Our Staff

Our staff have an extensive range of skills and experience. Whilst they work across numerous service delivery units in three divisions, we operate as one organisation. When it comes to the provision of service delivery and the delivery of our Council Plan and Business Plan, our staff are our most important asset. It is through them that we deliver our community's key objectives and goals in the Community Plan. CoPP staffing numbers are summarised by Division at table 4 below:

Table 4: CoPP Staffing Numbers

COPP Division	FTE staffing number (total)	Full-Time		Part-Time	
		Males	Females	Males	Females
<b>Organisation Systems &amp; Support</b>					
<=25 Years of Age	3	0%	100%	0%	0%
Between 26 & 39 Years of Age	38.28	31%	57%	0%	11%
Between 40 & 54 Years of Age	21.79	41%	41%	0%	17%
>= 55 Years of Age	7.92	13%	51%	10%	27%
Subtotals	70.99	31%	54%	1%	14%
<b>Organisation Systems &amp; Support Total</b>		85%		15%	
<b>Community Assets &amp; Services</b>					
<=25 Years of Age	18.23	27%	55%	3%	14%
Between 26 & 39 Years of Age	88.46	24%	43%	2%	31%
Between 40 & 54 Years of Age	106.93	24%	37%	6%	32%
>= 55 Years of Age	61.16	28%	23%	17%	33%
Subtotals	274.78	25%	37%	7%	31%
<b>Community Assets &amp; Services Total</b>		62%		38%	
<b>Community Development &amp; Planning</b>					
<=25 Years of Age	10.54	28%	47%	7%	17%
Between 26 & 39 Years of Age	110.73	39%	42%	6%	14%
Between 40 & 54 Years of Age	77.63	44%	31%	6%	19%
>= 55 Years of Age	27.54	47%	11%	20%	22%
Subtotals	226.44	41%	34%	8%	17%
<b>Community Development &amp; Planning Total</b>		76%		24%	
<b>Grand Total</b>	572.21	32.16%	38.10%	6.67%	23.08%
		70.25%		29.75%	

Note 1: Percentages factor in 35, 38 and 40 hour week employee / position relationships.

### 8.2.1. Sustainable Learning

The City of Port Phillip is a learning organisation that recognises the benefit of providing a stimulating and challenging environment for its staff. CoPP is committed to providing personal and professional development opportunities via a comprehensive training program underpinned by sustainable learning outcomes.

Sustainable Learning at the City of Port Phillip is about lasting behavioural change. Learning outcomes are linked to an assessment of an individual or a team's development needs with all internal training focussing on the following learning principles:

- Contributes to service culture;
- Builds internal capacity (succession planning);
- Fills knowledge gap - ensures the determined key competencies are defined and the identification of skills/knowledge gap are used as part of ongoing coaching and support;
- Meets legislative duty of care, regulations and codes of practice requirements.

Emphasis is placed on lasting behavioural change through the use of personal insight, encouraging dialogue and through preparing participants to discuss and apply their learning in new situations. Individuals training needs are ascertained in conjunction with their supervisor as part of the performance dialogue and feedback process and incorporated into an annual personal workplan.

### **8.3 Our Services**

We have developed an approach to service delivery which we call 'Same Day Service' (SDS). Based on this approach our commitment to the community states that:

*"We will not be able to fix all of your problems, or resolve them as quickly as you may prefer. However we do commit to prompt response to your requests and delivering our commitments."*

SDS is a commitment by all staff to exercise personal judgment within agreed standards to respond on the day they receive a request. The central message is that all staff take personal responsibility for what they do and how they contribute to improving service delivery.

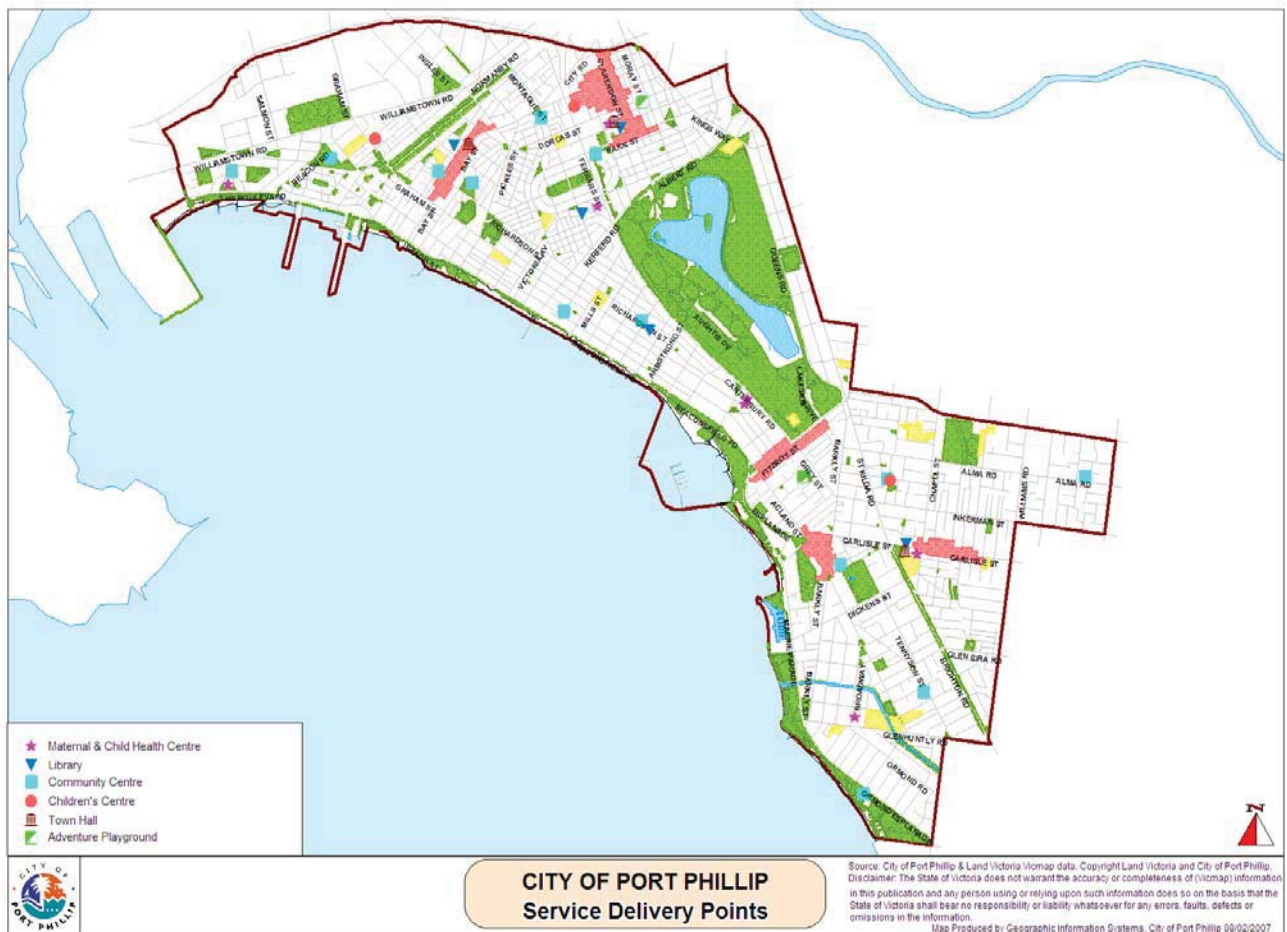
### 8.3.1. CoPP Services by Division

Table 5: CoPP Services per Division

Community Assets & Services	Organisation Systems & Support	Community Planning & Development
<ul style="list-style-type: none"> <li>• Council Liaison and Technical Services</li> <li>• Assets and Emergency Management</li> <li>• Asset Design and Delivery</li> <li>• Parks and Open Spaces</li> <li>• Parks &amp; Urban Planning</li> <li>• Civil Construction</li> <li>• Street &amp; Beach Cleaning</li> <li>• Civil Maintenance</li> <li>• Building Maintenance</li> <li>• Environmental Policy &amp; Planning</li> <li>• Waste &amp; Cleaning</li> <li>• Infrastructure &amp; Waste Management</li> <li>• Family and Children's Services</li> <li>• Ageing and Community Care</li> <li>• Home Care</li> <li>• South Melbourne Market</li> <li>• Records</li> <li>• ASSIST (Customer Service Centre)</li> <li>• Meetings &amp; Events</li> <li>• Parking Permits</li> <li>• Customer Service Systems</li> <li>• On-line Development</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue Management</li> <li>• Financial Management</li> <li>• Accounts Payable/Accounts Receivable</li> <li>• Payroll</li> <li>• Purchasing</li> <li>• Treasury</li> <li>• Financial Systems</li> <li>• Governance Projects</li> <li>• Statutory Functions</li> <li>• Mayor &amp; Councillors Office</li> <li>• Corporate Planning &amp; Management</li> <li>• Service Improvement</li> <li>• Marketing &amp; Publications</li> <li>• Campaigns &amp; Community Relations</li> <li>• Valuations &amp; Property Co-ordination</li> <li>• Insurance &amp; Risk Management</li> <li>• Port Phillip Online</li> <li>• Organisation Development (HR)</li> <li>• Fleet</li> <li>• Information Systems</li> <li>• Geographic Information Systems (GIS)</li> <li>• Information Systems Training</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Transport</li> <li>• Economic Development &amp; Tourism</li> <li>• Community Health and Development</li> <li>• Community Planning &amp; Leadership</li> <li>• Parking Systems</li> <li>• Community Housing</li> <li>• Parking Enforcement</li> <li>• Health Services</li> <li>• Animal Management</li> <li>• Local Laws</li> <li>• Statutory Planning</li> <li>• Strategic Planning</li> <li>• Building Solutions</li> <li>• Systems Development</li> <li>• St Kilda's Edge</li> <li>• Planning &amp; Building Business Support</li> <li>• Social Planning and Policy</li> <li>• Foreshore and Recreation</li> <li>• Library Services</li> <li>• Arts and Festivals</li> <li>• Community Development</li> <li>• Youth &amp; Recreation</li> <li>• Local Information, Networks &amp; Community Spaces (LINCS)</li> <li>• Indigenous Policy &amp; Programs</li> </ul>

### 8.3.2. CoPP Services and Facilities

Diagram 6: CoPP Service Points



### 8.3.3. Support from Contractors

The structure of our organisation is supplemented by a range of non-staff specialists who deliver services via long and short-term contracts, or are brought in to provide specific services as required. We value our contractor partnerships highly and work together to ensure that when our community experience service from these companies it should be the same as the service they experience from City of Port Phillip staff..

External contractors provide:

- Parks & open spaces management;
- Waste collections;
- Parking revenue collections;
- Street and beach cleaning;
- Road, footpath and drainage construction and maintenance;
- Rates and revenue collection;
- Property valuations.

## 8.4 Information Technology

Central to CoPP's services is a structured information technology framework that supports our everyday function and enhances service delivery. Each year CoPP formulates an Information Systems Strategy that outlines the initiatives for the coming financial year.

The Information Systems Strategy for 2007/08 financial year is committed to firstly maintaining the high level of reliability and availability currently provided for existing systems, and secondly to supporting increased levels of service to the community.

The initiatives planned for next financial year, include:

- Streamline and strengthen the collection and use of information across the organisation, developing a single view of each asset, customer and service.
- Integrate systems across the Council to deliver efficiencies and reduce duplication of effort and data.
- Manage the risk to Council's IT assets and systems from malicious attacks and service interruptions.

### Stakeholders

- IT Services will establish and implement a ratified security policy and support it with the necessary software and hardware.
- ITS will implement technology and procedures which will effectively provide the easy recovery of essential council services and work to prevent any interruption to council services.

### Financials

- IT Services will follow strong project management methodology to ensure all projects are undertaken in a financially responsible manner.
- All projects will have a rigorous business case review to ensure the best return on investment and timely delivery.

### Customers

- IT Services will actively work to support the development of new customer service channels to streamline council activities.
- IT Services will provide the organisation with access to appropriate new technology which enables better and more efficient service.
- The development of a consistent method of recording all information about council's customers will be supported by IT Services.

### Internal Process

- IT Services will ensure the management of council's core systems is undertaken in an appropriate and consistent manner.
- Analysis of utilisation levels of IT hardware will be used to guide the investment and servicing of Councils IT infrastructure.
- IT Services will develop and maintain a catalogue of all services provided by the department and assign ratified SLAs to these.

### People

- IT Services will implement tools and systems to allow the public to interact with Council.
- Staff will be trained in Project Management methodologies and customer satisfaction will be analysed in a regular and consistent manner.

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<sup>i</sup> All charts taken from *Financial KPI Analysis 2005/06*, Strategy Plus, 2007