



Draft Long Term
Financial Strategy
2019/20 to 2028/29
Adoption in Principle 16.04.2019



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DRAFT LTFS

1. INTRODUCTION

Council's Long Term Financial Strategy (LTFS) has been reviewed and updates the strategy adopted by Council in 2018-19.

Key parameters of the LTFS are detailed below:

- Annual rates increase at the current Essential Services Commission (ESC) rate cap level (2.50%) for the duration of the LTFS;
- All other revenue is based on 2018-19 forecasts;
- Recurrent expenditure held at 2018-19 levels, excluding contract price adjustments and employee agreement increase;
- Efficiency target of \$500k recurrent expenditure savings is built into each year.
- Liquidity ratio is above 1.4, except for Year 2 due to the interest only loan of \$32.5m becoming a current liability for one year only.
- Capital replacement ratio is lifted above or equal to 1.5 from Year 2.

The LTFS document is updated annually as part of the budget preparation process. It is subject to ongoing review and may be updated during the budget year if and when required.

2. OBJECTIVE

Council prepares a LTFS over a 10 year period to provide financial management and guidance to support service delivery and the capital works program. This document outlines the key assumptions and provides an overview of each key element of the LTFS.

Strong financial management will allow Council to:

- maintain delivery of Council services to the community;
- allow for timely renewal of Council assets;
- provide a reasonable level of funding for asset upgrades, new assets and new initiatives;
- have sufficient cash liquidity to meet operational requirements and to respond to any unexpected financial pressures; and
- achieve and maintain low risk financial sustainability ratings.

3. MANAGEMENT OF THE LTFS

The LTFS is managed within a framework of key financial indicators together with profiled cash management. These items are drawn together to provide a strategy for the long-term sustainability and solvency of Council's operation.

Each year, the financial assumptions are reviewed, and a number of amendments have been required for new projects happening within Yarra such as the Depot relocation, participation in the Melbourne Renewal Energy Project, and the new proposed school and stadium at North Fitzroy.

Rate capping continues to reduce Council's total potential revenue over the timespan of the LTFS and Council has less control via rates to respond to unexpected financial pressures. Council also has a \$32.5m interest only loan due to be repaid in 2020-21, and it is anticipated that Council will need to borrow funds to repay this loan.

A critical element of the assumptions is the allocated expenditure to the Capital Works Program. The LTFS assumes 100% of the capital program will be delivered in each year.

The LTFS includes a set of financial principles that provide guidance for Council's financial strategy. These are detailed in Appendix 1 – Financial Strategy Principles.

Council also uses a range of financial sustainability ratios provided by the Victorian Auditor-General's Office (VAGO) and by Local Government Victoria (LGV) to ensure the long term financial sustainability of Council.

The key lead indicators are:

- Liquidity Ratio
- Renewal Gap
- Net Result
- Indebtedness

Other indicators are:

- Debt Commitment
- Self-Financing
- Unrestricted Cash
- Capital Replacement

Descriptions of each of these indicators together with the target range sought is provided in Appendix 2 – Key Financial Indicator Definitions.

4. FINANCIAL POSITION BACKGROUND

Council's current financial position (predicted 30 June 2019) is on track to exceed budget and in general, Council is performing satisfactorily against benchmark ratio levels established by the Auditor General.

In addition to on-going delivery of established Council services and program of Council asset renewals, Council also receives a variety of requests from the community for new services, expanded service delivery, asset upgrades and new community assets. Council currently has a very limited capacity in discretionary funds to respond to these needs.

Council borrowed funds in November 2014 via the Local Government Funding Vehicle (LGFV) bond sponsored by the Municipal Association of Victoria. This seven year loan of \$32.5 million provided funding for a call on the defined benefit superannuation liability, purchase of 345 Bridge Rd, purchase of the Connie Benn Centre operations, and an energy performance contract. This loan is an interest only fixed term loan and will require refinancing in 2020-21. An additional loan of \$13.5 million was drawn down in 2016-17 to fund the construction of Bargoonga Nganjin, North Fitzroy Library. This loan is funded on a principal and interest basis and will be repaid by the end of the LTFS.

5. 2019-20 BUDGET POSITION

The 2019-20 Operating Budget supports many services to the community and also provides cash that is used to help fund Council's current and future Capital Works Program. The Capital Works Program is critical to Council's ability to maintain, enhance and build assets that meet community needs and underpin the delivery of Council services.

At the adoption of the 2017/18 Budget, Council introduced a liquidity ratio target of 1.4, to be achieved by 30 June 2021 (end of year 2 of this LTFS). The previous LTFS achieved this target by reducing capital spend in the short term. With the interest only loan of \$32.5m becoming a current liability in 2020/21m, the 1.4 liquidity ratio is unable to be achieved due to this reclassification. Excluding the reclassification of the loan, the liquidity ratio would be 1.5 (after accounting for restricted cash requirements), and Council exceeds the target in 2019/20.

5.1 CASH HOLDINGS

Council's total cash holding at 30 June 2018 was \$51.1 million, of which \$11.2 million was restricted for use on commitments such as the open space reserve, grants commission funding received early, and capital works projects carried over into 2019-20.

For the 2018-19 budget year in progress, Council is forecasting for a cash balance at 30 June 2019 of approximately \$75.6m, of which around \$25.5m will be again restricted for open space reserve and operating and capital grants carried forward. A large portion of this is a \$17.5m grant for the relocation of the Fitzroy Depot. This money is anticipated to be received in 2018/19, however the majority of the spend will occur in years 2020/21 and 2020/22. Council will be required to hold onto these funds for that future spend.

For the 2019/20 budget year (the first year of the LTFS), the end of year cash balance at 30 June 2020 is expected to be \$78.5 million (assuming 100% capital budget spend), of which \$25.9m will be restricted for future projects.

5.1.1 WORKING CAPITAL

Council's working capital, as measured by a liquidity ratio of current assets divided by current liabilities is forecast to be 2.64 at the end of the 2018/19 budget year in progress. This ratio is higher than the previous LTFS budgeted ratio of 1.3, due to the significant grant funding Council is anticipating to receive in 2018/19 for the Fitzroy Depot relocation which it will be required to hold until the project is completed, as well as additional grant funds for the Wellington St Bike Lane works.

Under this LTFS, the liquidity ratio will be budgeted to be 2.68 at the end of 2019-20 (the first year of the LTFS) and again this is high due to the spend of the Depot project not scheduled to be completed until 2020-21 and 2021-22.

The ratio drops to 1.25 in 2020-21 due to Council's \$32.5m interest only loan becoming a current liability in that year. It is due to be repaid via refinancing in 2021-22.

Council's restricted cash working capital ratio continues to be tight, as this LTFS achieves additional spend on capital works to lift the capital replacement ratio on VAGO's low risk sustainability indicator to 1.5.

5.1.2 OPEN SPACE RESERVE

An Open Space Reserve exists for the purpose of holding contributions received as Public Open Space Levies triggered by property development. These funds are available to be acquitted on eligible open space capital works projects.

This LTFS includes the forecast balance in the reserve from 2018-19 of approximately \$5.3m, and assumes Council will continue to build up funds in the Reserve in order to potentially acquire land for open space. Whilst Council is working with the State Government to identify and create new open spaces in Yarra, no specific Council funded acquisitions are currently proposed. Council will however utilise some of the reserve for eligible open space capital works projects during each year.

6. STRATEGIC ACTIONS

In drafting this LTFS a number of strategies have been implemented to seek to build a more complete picture of Council's financial position and to provide better alignment with Council's goals.

6.1 IMPROVING COUNCIL'S WORKING CAPITAL

Council's working capital was coming off a very low base and has improved due to strong revenue growth and a disciplined approach to expenditure by Council. A reduced capital works program over the past two years has also assisted with improving Council's working capital and liquidity ratio. Council will be required to keep a close eye on its restricted cash ratio, ensuring that reserve funds continue to be cash backed. Nonetheless, additional revenue opportunities and expenditure savings will continue to be sought, including the recurrent efficiency dividend that applies to each year of the LTFS.

6.2 ACQUISITION OF NEW PUBLIC OPEN SPACE

Council has a stated goal of seeking to acquire land for new public open space. Since 2016-17, the LTFS has aligned the acquisition of strategic open space assets with rationalisation of surplus Council assets and asset sales income. This is still a goal in the medium to long term, and could be achieved through leasing or partnerships with external parties such as the State Government. As per 5.1.2, the open space reserve is beginning to grow in value.

6.3 RATE CAPPING

For the 2016-17 budget year, a rate capping scheme (the Fair Go Rates System) was introduced by the Victorian Government, with the scheme administered by the Essential Services Commission (ESC). Under this scheme the Minister for Local Government will declare the applicable rate cap for each budget year ahead of the period in which Council must prepare and adopt its annual budget.

The Minister for Local Government has declared the rate cap level for 2019-20 at 2.50%. This follows rate caps of 2.25% in 2018-19, and 2% in 2017-18.

In the LTFS, it is assumed that the rate capping scheme will remain in place for the duration of the LTFS.

If the rate cap increases are less than predicted and additional revenue sources are not available, Council may be required to cease provision of some services, reduce service levels, reduce the capital works program, or undertake some combination of these actions.

6.4 LOAN BORROWINGS

The introduction of rate capping as well as debt required to be repaid in the short term, has had a significant impact on the LTFS and challenged Council's financial position. Existing debt is serviced by a \$32.5 million interest only loan, due to be repaid in 2021-22 and a \$13.5 million principal and interest loan due to be repaid by the end of this 10 year LTFS.

The LTFS includes refinancing of the \$32.5 million interest only loan when it becomes due in 2021-22, with the refinanced loan to be on a principal and interest basis, which will ultimately allow for the retirement of this debt over 10 years. The \$13.5 million loan is to be repaid on a principal and interest term and will be fully redeemed by the end of the LTFS.

The Victorian Auditor-General has indicated through its recommendation on financial ratios that Indebtedness (Non-current liabilities/Own sourced revenue) above 40% places Council in the medium risk category and 60% in the high risk category. The indebtedness ratio is expected to be 26.3% at the end of the current 2018-19 budget year. It will improve to 24.7% at the end of year 1 (2019-20) and will further improve steadily throughout the life to the LTFS to reduce the risk to Council.

In the early years of the LTFS, further borrowing may need to occur to provide Council with contingency funds should the need arise, e.g. a further call on the Defined Benefit Superannuation obligation.

6.5 MOTOR VEHICLE FLEET – OWNERSHIP/LEASING

Council's motor vehicle fleet (comprising passenger cars, utility vehicles and trucks) is currently partially purchased and managed directly by Council, and partially leased. As a result, an annual capital allocation is required to pay for the changeover cost for a portion of the Council owned and managed part of the fleet. For 2019-20 (LTFS year 1), the net capital allocation for all vehicles is approximately \$1.3 million.

The overall size of the Council motor vehicle fleet, and the mix of Council owned versus leased vehicles is subject to ongoing review and adjustment, with the guiding principle being providing lowest overall cost to Council whilst maintaining Council service levels at the required standards.

6.6 COUNCIL PROPERTY

Council recently adopted the Property Strategy 2018, which provides a holistic framework for the management of all Council property assets and establishes guiding principles for the alignment of Council's property portfolio with its future community and service delivery requirements.

The strategy includes a classification and assessment framework to guide Council decision making with regards to property.

6.7 FEES AND CHARGES POLICY

It is proposed that Council adopt a Fees and Charges Policy that provides guidance (specific to each fee/charge category and user group) about how fees and charges will be set in the Schedule of Fees and Charges in each annual Council budget. The Fees and Charges Policy will take account of cost of service provision and objectives for the level of subsidy, cost recovery or return on investment for each service and user group as appropriate and aligned with Council objectives. Compliance with competitive neutrality requirements will also be considered where applicable.

It is anticipated a fees and charges policy will be developed in 2019 for implementation in the 2020/21 financial year.

6.8 NEW POPULATION AND DEVELOPMENT

Yarra is experiencing growth in population and households as outlined in Table 1.

Table 1 – CITY OF YARRA FORECAST POPULATION AND HOUSEHOLDS

	Year			
	2016	2021	2026	2031
Total Population	92,610	103,830	113,705	122,022
Pop. in private dwellings	90,637	101,520	111,047	119,018
Households	42,593	47,486	51,884	56,024
Average household size	2.13	2.14	2.14	2.12
Change in population				
Net change (5 years)		11,220	9,875	8,317
Average annual change		2.3%	1.8%	1.4%
Change in households				
Net change (5 years)		4,894	4,397	4,140
Average annual change		2.2%	1.8%	1.5%

Source: *Victoria in Future 2016*

Growth in number of households is expected to be an average of 2.3% p.a. through to 2021, and then grow at the slightly lower average annual rate of 1.8% for the five years to 2026.

The LTFS provides for some growth in labour costs to accommodate the increased population and dwellings being serviced. Requirements to fulfil statutory obligations or increased customer demand can no longer realistically be delivered within the existing workforce allocation, and some upwards movement will be required.

6.9 ENHANCED DEBTOR MANAGEMENT

A significant task to improve debt management is being undertaken by the organisation, as directed by Council in the adoption of the 2017/18 budget. This involves the review of historical debt across all aspects of Council's operations.

6.10 LEGAL FEES

An allocation has been made within the LTFS to accommodate estimated legal fees required for the normal operations of Council, and in relation to legal services required for specific legal cases involving Council.

6.11 ASSET RENEWAL, NEW AND UPGRADE EXPENDITURE

Information from Council's Asset Management Plans determines Council's capital expenditure priorities.

As part of the preparation of this LTFS the cost of works has been indexed to reflect the future cost of works in years 2-10 of the LTFS.

This LTFS indicates that funds available for new asset and asset upgrade capital expenditure and new initiatives in operations will be approximately \$7.5 million in 2019-20 and then increments significantly in future years. Renewal of assets is prioritised to ensure financial sustainability. Council is hoping to introduce a Developer Contribution Plan which will contribute towards capital works projects. If this is approved by the Minister for Planning, the LTFS will be updated to reflect the budgeted contributions and the capital projects associated with the plan.

7. KNOWN MATTERS TO BE QUANTIFIED

7.1 FUTURE INITIATIVES

A number of other key initiatives have also been identified as having potential for significant impact on the LTFS but are unquantified at this time. These include:

- Fitzroy Town Hall precinct – master planning for future use and associated capital works
- Vere Street, Abbotsford precinct including Soldiers and Sailors Hall – master planning for future use and associated capital works
- Sustainability and Environment initiatives
- Open Space Strategy review (including open space contributions review)
- Development Contributions Plan

For each of these initiatives, there is no provision in the LTFS future years for the program of works that may potentially arise.

7.2 CONTINGENT LIABILITIES

A number of issues have been identified that have the potential to result in a significant financial impact on Council. As these issues are uncertain no specific allowance within the LTFS has been made. These matters include:

- Future calls from the Local Government Defined Benefits Scheme.
- Costs associated with changes arising from the reform of the HACC service and NDIS.

The LTFS will be updated as required to incorporate these matters when additional information is obtained in relation to these or any other matters.

8. OPERATING ACTIVITIES

The LTFS statement of financial performance related to the operating activities of Council is presented in Table 2.

Table 2 - FINANCIAL PERFORMANCE (\$'000)

	FC Actual 2018-19 \$'000	Budget 2019-20 \$'000	Budget 2020-21 \$'000	Budget 2021-22 \$'000	Budget 2022-23 \$'000	Budget 2023-24 \$'000	Budget 2024-25 \$'000	Budget 2025-26 \$'000	Budget 2026-27 \$'000	Budget 2027-28 \$'000	Budget 2028-29 \$'000
	FC Actual	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
REVENUES											
Rates - general	108,531	112,465	116,373	120,581	124,793	129,109	133,534	138,069	142,717	147,482	152,366
Statutory fees and fines	32,521	32,935	33,435	33,935	34,435	34,935	35,435	35,935	36,435	36,935	37,435
User fees	31,030	32,330	33,330	34,330	35,330	36,330	37,330	38,330	39,330	40,330	41,330
Grants-Operating	12,796	12,541	12,422	12,733	13,051	13,377	13,712	14,054	14,406	14,766	15,135
Grants-Capital	20,340	2,432	2,860	7,070	580	590	600	610	620	630	640
Contributions - OSR	4,500	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Contributions - Other	418	397	400	400	400	400	400	400	400	400	400
Net gain/(loss) on disposal of PP&E	205	180	160	190	210	720	195	195	190	195	150
Other income	3,775	2,836	3,336	3,836	4,336	4,836	5,336	5,836	6,336	6,836	7,336
TOTAL INCOME	214,116	200,416	206,616	217,375	217,435	224,597	230,841	237,729	244,734	251,874	259,092
EXPENSES											
Employee Costs	82,211	87,115	89,375	91,663	93,996	96,376	98,803	101,279	103,305	105,371	107,478
Materials & services	73,904	72,959	75,283	77,743	80,187	82,691	85,259	87,390	89,575	91,814	94,109
Depreciation & amortisation	22,696	22,800	23,300	23,800	24,300	24,800	25,300	25,800	26,300	26,800	27,300
Bad and doubtful debts	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Borrowing costs	1,963	2,035	1,980	1,876	1,692	1,498	1,296	1,084	862	630	466
Other expenses	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	184,774	188,909	193,938	199,082	204,174	209,365	214,658	219,553	224,042	228,615	233,354
Net (Surplus) /Deficit	29,342	11,507	12,678	18,294	13,260	15,233	16,184	18,176	20,693	23,259	25,738
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Net asset reval increment	-	52,204	-	52,465	-	52,727	-	52,991	-	53,256	-
Comprehensive result (surplus)/deficit	29,342	63,711	12,678	70,759	13,260	67,960	16,184	71,167	20,693	76,515	25,738

OPERATING ACTIVITIES REVENUE

RATE REVENUE

Council no longer has unrestricted control over its rate revenue, as it is limited in future years by the direction imposed by the Minister for Local Government under rate capping. Current estimates of rate revenue are outlined in Table 3.

Table 3 - RATES ESTIMATES (\$'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
General rates raised	111,235	115,143	119,252	123,463	127,780	132,204	136,739	141,388	146,153	151,036
Bridge Rd special rate	157	157	157	157	157	157	157	157	157	157
Supplementary rates	1,100	1,100	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Other rate revenue & offsets	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)
Totals	112,465	116,373	120,581	124,793	129,109	133,534	138,069	142,717	147,482	152,366

Supplementary Rates are additional rate income raised as a result of growth in new or extended properties or by change of land use under the planning scheme.

FEES AND CHARGES

Fees and Charges assist Council to offset the cost of some service delivery directly with user payment rather than funding through rates income.

Statutory Charges are not within Council's control and therefore may not in general reflect movements in Council costs. Some statutory costs are indexed at the Consumer Price Index (CPI), whereas others (e.g. statutory planning charges) are not indexed but rather adjusted on an ad hoc basis by the State Government.

PARKING REVENUE

Parking revenue is a reflection of the statutory charges established by the State Government and also reflects the growing pressure on parking space within the City. Parking revenue can be influenced by many external factors such as economic conditions, clearway policy, fuel prices, and other State Government projects such as DDA tram stops, bike lanes etc. A conservative approach to growth in this revenue source has been applied, recognising that it will continue to grow. The LTFS estimates of parking revenue are shown in Table 4.

Table 4 - PARKING REVENUE ESTIMATES (\$'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Parking Revenue	32,935	33,435	33,935	34,435	34,935	35,435	35,935	36,435	36,935	37,435

Council's total income from parking enforcement, permits and parking meter income is significant at \$32.93 million in 2019-20 (year 1 of LTFS), being approximately 16.4% of total Council revenue in 2019-20.

Council is reliant on Fines Victoria to collect its outstanding fine revenue, and they are currently experiencing difficulty in delivering those revenue outcomes to Council. This may have an unfavourable impact on Council's cash position if debts are not collected within statutory timeframes.

GOVERNMENT GRANTS - OPERATING

These grants are received from Commonwealth and State Governments in support of programs. The largest grant is the Victorian Grants Commission allocation of Commonwealth money. Council's entitlement to the Victorian Grants Commission is an "as of right" entitlement and no significant shift in allocation is expected. Any increase will relate to changes in Yarra's population.

INTEREST INCOME

Interest income is based on predicted cash flow, cash balances and CPI.

GAIN ON SALE OF ASSETS

An amount of \$0.2 million has been allowed for gain on sale of assets in 2019-20, largely reflecting that disposal values achieved for Council fleet vehicles generally exceed the written-down value of the vehicles. This amount is not expected to grow over the lifetime of the LTFS, with on-going review and rationalisation of the fleet mix.

OPERATING ACTIVITIES EXPENSES

EMPLOYEE COSTS

Employee benefits include all labour related expenditure, including agency staff. Employee costs are largely governed by Council's Enterprise Bargaining Agreement. For years 2-10 an estimate has been provided that is based on predicted average weekly earnings increases. No allowance has been made in the LTFS for possible further contributions to a top-up call from the Local Government Defined Benefits Scheme (Vision Super).

CONTRACTS

Contract costs generally increase in excess of the CPI, reflecting the growth in average weekly wages and material costs.

MATERIALS AND SERVICES

These relate to a range of goods and services including utilities, insurance, consultants, legal fees, telecommunications and maintenance.

A permanent reduction of \$500,000 (in real terms) for expenditure on materials and services is included in each year as an efficiency dividend, with the reduction to be maintained in real terms as a recurrent saving throughout the entire duration of the LTFS.

Legal fees are a significant component of material and services, and these costs are often outside Council's control. Increased development pressure is also generating increases in legal costs associated with VCAT appeals, and the need for adjustments to the Yarra Planning Scheme.

Council's contribution to community through its annual and service grants is a component of this cost.

The State Government also imposes a Waste Levy on Council to encourage enhanced environmental practice across the State and historically has been increasing at around 10% per annum.

DEPRECIATION

Depreciation is forecast to increase by approximately 2% p.a. over the duration of the LTFS.

DOUBTFUL DEBTS

Bad and doubtful debts expenses are being held at the same level across the timeframe of the LTFS.

9. CAPITAL WORKS EXPENDITURE

Council's long term capital works plan incorporated into the LTFS is shown in Table 5.

Table 5 – ESTIMATED CAPITAL EXPENDITURE (\$'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Renewal	23,895	27,959	27,581	24,143	24,514	26,795	28,987	31,025	31,935	30,668
Upgrade & New	7,439	15,386	24,519	14,611	12,636	11,065	9,611	8,422	8,165	10,586
Total	31,334	43,345	52,100	38,754	37,150	37,860	38,598	39,447	40,100	41,254

Note that Years 2 & 3 includes the Depot relocation project.

Asset renewal includes improvements that bring existing assets to a current equivalent standard or performance capability. For example, replacement of an aged kitchen to current design standards. Upgrade of an asset is restricted to an increase in asset capacity.

Annual review of the classification of expenditure between operating and capital for both budgeting and actual expenditure recording is undertaken.

An asset revaluation is undertaken every two years, in accordance with Accounting Standard requirements.

ASSET RENEWAL CAPITAL WORKS

Asset renewal has been incorporated within the LTFS in accordance with the adopted asset management plans. These include:

- Roads
- Buildings
- Open Space
- Drainage
- Information Systems

Asset renewal expenditure has been indexed accordingly for the asset type.

Renewal expenditure has been reduced to reflect the move to leasing of motor vehicles.

NEW AND UPGRADE CAPITAL WORKS

The new assets and asset upgrade portions of the capital works program have been based on assessments undertaken for the 2019-20 budget preparation.

10. FINANCIAL POSITION

The LTFS statement of Council's financial position is presented in Table 6.

Table 6 - FINANCIAL POSITION (\$'000)

BALANCE SHEET	FC Actual	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	2026-27 \$'000	2027-28 \$'000	2028-29 \$'000
	FC Actual	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Current Assets											
Cash and cash equivalents	75,575	78,532	71,030	58,146	53,822	53,314	53,275	54,709	58,017	63,854	71,244
Trade and other receivables	14,568	13,340	12,175	11,078	10,047	9,085	8,192	7,370	6,619	5,940	5,336
Other Financial Assets	0	0	0	0	0	0	0	0	0	0	0
Inventories	107	107	107	107	107	107	107	107	107	107	107
Non Current assets classified as held for sale	0	0	0	0	0	0	0	0	0	0	0
Other Assets	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014	1,014
Total Current Assets	91,264	92,992	84,326	70,345	64,990	63,520	62,589	63,200	65,756	70,916	77,701
Non -Current Assets											
Trade and other receivables	235	235	235	235	235	235	235	235	235	235	235
Property, plant and equipment ,infrastructure	1,915,281	1,975,669	1,995,364	2,075,779	2,089,883	2,154,610	2,166,821	2,232,259	2,245,057	2,311,263	2,324,866
Intangible assets	0	0	0	0	0	0	0	0	0	0	0
Total Non-Current Assets	1,915,516	1,975,904	1,995,599	2,076,014	2,090,118	2,154,845	2,167,056	2,232,494	2,245,292	2,311,498	2,325,101
Total Assets	2,006,780	2,068,896	2,079,925	2,146,359	2,155,109	2,218,366	2,229,644	2,295,695	2,311,048	2,382,413	2,402,802
Current Liabilities											
Trade and other payables	9,283	9,283	9,283	9,283	9,283	9,283	9,283	9,283	9,283	9,283	9,283
Trust funds and deposits	10,906	10,906	10,906	10,906	10,906	10,906	10,906	10,906	10,906	10,906	10,906
Provisions	13,209	13,209	13,209	13,209	13,209	13,209	13,209	13,209	13,209	13,209	13,209
Interest bearing loans and borrowings	1,176	1,250	33,808	4,110	4,303	4,505	4,717	4,939	3,453	3,616	3,787
Other Liab											
Total Current Liabilities	34,574	34,648	67,206	37,508	37,701	37,903	38,115	38,337	36,851	37,014	37,185
Non-Current Liabilities											
Provisions	1,398	1,398	1,398	1,398	1,398	1,398	1,398	1,398	1,398	1,398	1,398
Other Liab	3,630	3,230	2,830	2,430	2,030	1,630	1,230	830	430	430	430
Interest bearing loans and borrowings	42,549	41,280	7,472	33,245	28,942	24,437	19,720	14,781	11,328	6,015	495
Total Non-Current Liabilities	47,577	45,908	11,700	37,073	32,370	27,465	22,348	17,009	13,156	7,843	2,323
Total Liabilities	82,151	80,556	78,906	74,581	70,071	65,368	60,463	55,346	50,007	44,857	39,508
Net Assets	1,924,629	1,988,340	2,001,019	2,071,778	2,085,038	2,152,998	2,169,181	2,240,349	2,261,041	2,337,556	2,363,294
Equity											
Accumulated surplus	652,209	660,506	670,056	685,321	695,576	712,558	725,492	742,418	759,861	779,870	802,488
Reserves	1,272,420	1,327,834	1,330,962	1,386,455	1,389,461	1,440,438	1,443,688	1,497,929	1,501,179	1,557,685	1,560,805
Total Equity	1,924,629	1,988,340	2,001,019	2,071,778	2,085,038	2,152,998	2,169,181	2,240,349	2,261,041	2,337,556	2,363,294

ASSETS

RECEIVABLES

Current receivables (net) are budgeted to be \$13.3 million at the end of 2019-20 (LTFS year 1).

INVENTORIES AND ASSETS HELD FOR SALE

The remaining current asset items have been left at budgeted 2018-19 levels, except for cash which is based on the outcomes of the expected cash flow.

PROPERTY, INFRASTRUCTURE AND PLANT AND EQUIPMENT

Property, infrastructure and plant and equipment is based on estimates for additions and disposals net of depreciation. An escalation factor of 0.5% has been allowed every two years from 2018-19 for the asset revaluation increment.

OTHER RECEIVABLES

Non-current receivables have been kept at budgeted 2018-19 levels.

LIABILITIES

PAYABLES

Payables are budgeted to be \$9.3 million at the end of 2019-20 (LTFS year 1) and remain stable across the LTFS.

TRUST FUNDS

Trust funds are budgeted to be \$10.9 million at end 2019-20 and remain stable across the LTFS.

EMPLOYEE PROVISIONS (CURRENT AND NON-CURRENT)

Employee provisions are budgeted to be \$10.9 million at end 2019-20 and remain stable across the LTFS.

INTEREST BEARING LOANS AND BORROWINGS

Loans are based on repayment schedules for two loans of \$32.5 million and \$13.5 million. The \$32.5 million interest only loan will be repaid by re-borrowing \$32.5 million, with the new loan financed in 2020-21 on a principal and interest basis. The \$13.5 million loan will be fully repaid by the end of the LTFS.

OPEN SPACE RESERVE

The open space reserve is forecast to have some eligible projects funded from the reserve, with the balance remaining in the reserve and being fully cash backed. This will continue through the 10-year period.

DRAFT

11. CASH FLOW

The LTFS statement of Council's cash flow is presented in Table 7.

Table 7 - CASH FLOWS (\$'000)

	FC Actual 2018-19 \$'000	Budget 2019-20 \$'000	Budget 2020-21 \$'000	Budget 2021-22 \$'000	Budget 2022-23 \$'000	Budget 2023-24 \$'000	Budget 2024-25 \$'000	Budget 2025-26 \$'000	Budget 2026-27 \$'000	Budget 2027-28 \$'000	Budget 2028-29 \$'000
	FC Actual	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Cash Flows from operating activities											
Receipts											
Rates	107,446	111,340	115,209	119,376	123,545	127,818	132,199	136,688	141,290	146,007	150,842
Statutory Fees & Fines	30,895	31,288	31,763	32,238	32,713	33,188	33,663	34,138	34,613	35,088	35,563
User Fees	31,030	32,330	33,330	34,330	35,330	36,330	37,330	38,330	39,330	40,330	41,330
Grants Operating	12,796	12,541	12,422	12,733	13,051	13,377	13,712	14,054	14,406	14,766	15,135
Grants Capital	20,340	2,432	2,860	7,070	580	590	600	610	620	630	640
Contributions - OSR	4,500	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Contributions - Other	418	397	400	400	400	400	400	400	400	400	400
Other Receipts	3,775	2,836	3,336	3,836	4,336	4,836	5,336	5,836	6,336	6,836	7,336
	211,200	197,464	203,620	214,282	214,255	220,840	227,539	234,357	241,295	248,357	255,547
Payments											
Payments to employees	(82,211)	(87,115)	(89,375)	(91,663)	(93,996)	(96,376)	(98,803)	(101,279)	(103,305)	(105,371)	(107,478)
Payments for mat & serv	(70,504)	(73,359)	(75,683)	(78,143)	(80,587)	(83,091)	(85,659)	(87,790)	(89,975)	(91,814)	(94,109)
Other Payments	-	-	-	-	-	-	-	-	-	-	-
	(152,715)	(160,474)	(165,058)	(169,806)	(174,582)	(179,467)	(184,462)	(189,069)	(193,280)	(197,185)	(201,588)
Net cash provided by (used in) operating activities	58,485	36,991	38,562	44,477	39,673	41,373	43,078	45,288	48,016	51,172	53,959
Cash Flows from investing activities											
Payments for property, plant and equipment, infrastructure	(31,296)	(31,334)	(43,345)	(52,100)	(38,754)	(37,150)	(37,860)	(38,598)	(39,447)	(40,100)	(41,254)
Proceeds from sale of PP&E	405	530	510	540	560	1,070	545	545	540	545	500
Net cash provided by (used in) investing activities	(30,891)	(30,804)	(42,835)	(51,560)	(38,194)	(36,080)	(37,315)	(38,053)	(38,907)	(39,555)	(40,754)
Cash Flows from financing activities											
Finance Costs	(1,963)	(2,035)	(1,980)	(1,876)	(1,692)	(1,498)	(1,296)	(1,084)	(862)	(630)	(466)
Proceeds from borrowings	0	0	0	32,500	0	0	0	0	0	0	1
Repayment of borrowings	(1,142)	(1,195)	(1,250)	(36,425)	(4,110)	(4,303)	(4,505)	(4,717)	(4,939)	(5,150)	(5,350)
Net cash provided by (used in) financing activities	(3,105)	(3,230)	(3,230)	(6,801)	(5,802)	(5,801)	(5,801)	(5,801)	(5,801)	(5,780)	(5,815)
Net increase (decrease) in cash and cash equivalents	24,489	2,957	(7,503)	(12,884)	(4,324)	(508)	(39)	1,434	3,307	5,838	7,390
Cash and cash equivalents at the beginning of financial year	51,086	75,575	78,532	71,030	58,146	53,822	53,314	53,275	54,709	58,017	63,854
Cash and cash equivalents at end of financial year	75,575	78,532	71,030	58,146	53,822	53,314	53,275	54,709	58,017	63,854	71,244

12. KEY INDICATORS

Key financial indicators for the duration of the LTFS are shown in Table 8, with definitions for the indicators included in Appendix 2. Graphical representations of these indicators are shown in the following sub-section. The appendix contains suggested long term target ratios for Yarra; the targets have been developed considering the Victorian Auditor General’s financial sustainability risk guidance, as well as the Local Government Performance Reporting Framework (LGPRF) Targets.

Table 8 - Projected Key Financial Indicators

	VAGO	LGPRF	Yarra Target	FC Actual	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Low Risk	Target Range		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Net Result (Net result/Total Rev)	>0%	N/A	>5%	13.7%	5.7%	6.1%	8.4%	6.1%	6.8%	7.0%	7.6%	8.5%	9.2%	9.9%
Adj. underlying result (Net Result/Total Rev) - Adj for Capex funding	>5%	(20%) - 20%	>5%	2.4%	2.5%	2.8%	3.4%	3.9%	4.7%	5.0%	5.7%	6.6%	7.4%	8.2%
Liquidity (Current Assets/Current Liabilities)	>1.0	1.0-4.0	>1.4	2.64	2.68	1.25	1.88	1.72	1.68	1.64	1.65	1.78	1.92	2.09
Unrestricted Cash (Unrestricted Cash/Current Liabilities)	N/A	10%-300%	>100%	118%	121%	58%	86%	67%	69%	60%	61%	63%	70%	81%
Debt Commitment (Int & Principal Repayments/Rate Rev)	N/A	0%-20%	<5%	3%	3%	3%	32%	5%	4%	4%	4%	4%	4%	4%
Internal Financing (Net Operating Cash Flow/Net Capex)	>100%	N/A	>100%	189%	120%	90%	86%	104%	115%	115%	119%	123%	129%	132%
Indebtedness (Total Non-Current Liab/Own Sourced Rev)	<40%	2%-70%	<40%	26%	25%	6%	19%	16%	13%	10%	8%	6%	3%	1%
Capital Replacement (Cash Flows for Capex/Depn)	>1.5	N/A	>1.5	1.38	1.37	1.86	2.19	1.59	1.50	1.50	1.50	1.50	1.50	1.51
Renewal Gap (Renewal Spend/Depn)	>1.0	0.40-1.30	>1.0	1.03	1.05	1.20	1.16	1.14	1.11	1.18	1.12	1.18	1.19	1.12

APPENDIX 1 – FINANCIAL STRATEGY PRINCIPLES

The Financial Strategy Principles provide the framework for the development of Council's Long Term Financial Strategy, and annual Budget development. The principles enable consistent and informed decision-making by Council.

The Financial Strategy Principles are outlined below:

Balanced and Sustainable Budget

Council will:

- Implement a sustainable budget and conservative financial strategy that caters for short and long-term requirements.
- Maximise the level of grants and subsidies received from Victorian and Commonwealth governments to achieve a better share of government taxes for the community.
- Debt servicing and debt redemption will be maintained within the financial capacity of Council reflected in a cap on indebtedness of less than 40%.
- Direct funds from asset sales to the purchase of new, upgrade assets or re-establishment of working capital.
- Trust Funds and Statutory Reserves will be fully cash backed at 30 June each year.

Asset management

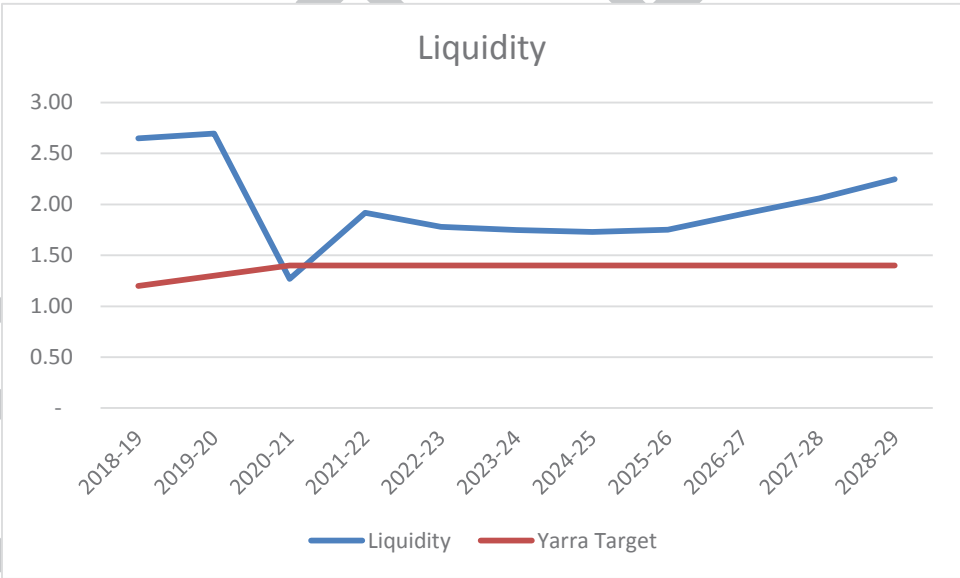
Council will (when funding is available):

- Provide well-maintained community assets that are fit for their purpose and provide best possible community benefit. Council will commit an appropriate level of expenditure on asset renewal and give priority to asset renewal over new assets.
- Ensure that the community has access to required community infrastructure, located to meet community needs within a framework of city wide priorities and designed with regard to current and future needs.
- Fund capital expenditure in a prudent, ethical and responsible manner. Council will seek and accept external funding contributions to a project where the acceptance of the funding will not compromise Council's principles or objectives.
- Manage, acquire and dispose of property in the best interest of the community. Council recognises the importance of efficient use of property holdings over the long term to support community wellbeing.

APPENDIX 2 – KEY FINANCIAL INDICATORS

Indicator	Description	Long Term Target Range for Yarra																																				
Net Result	<p>This measures how much of each dollar collected as revenue translates to net result. A positive result indicates a surplus, and the larger the percentage, the stronger the result.</p> <p><u>Net Result</u> Total Revenue</p> <p>VAGO High Risk = less than negative 10% Medium Risk = Negative 10% to zero Low Risk = Greater than 0%</p> <div data-bbox="338 1111 1305 1682"> <table border="1"> <caption>Net Result Data</caption> <thead> <tr> <th>Year</th> <th>Net Result (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>14.0</td><td>5.0</td></tr> <tr><td>2019-20</td><td>6.0</td><td>5.0</td></tr> <tr><td>2020-21</td><td>6.5</td><td>5.0</td></tr> <tr><td>2021-22</td><td>8.5</td><td>5.0</td></tr> <tr><td>2022-23</td><td>6.5</td><td>5.0</td></tr> <tr><td>2023-24</td><td>7.0</td><td>5.0</td></tr> <tr><td>2024-25</td><td>7.5</td><td>5.0</td></tr> <tr><td>2025-26</td><td>8.0</td><td>5.0</td></tr> <tr><td>2026-27</td><td>8.5</td><td>5.0</td></tr> <tr><td>2027-28</td><td>9.0</td><td>5.0</td></tr> <tr><td>2028-29</td><td>10.0</td><td>5.0</td></tr> </tbody> </table> </div> <p>Council’s net result is high in 2018-19 due to grants funds forecast to be received for the Depot relocation - \$17.5m, and Wellington St Bike Lane - \$1.5m. It peaks again in 2021-22 due to grant funding for Edinburgh Gardens and Fitzroy Grandstand projects.</p>	Year	Net Result (%)	Yarra Target (%)	2018-19	14.0	5.0	2019-20	6.0	5.0	2020-21	6.5	5.0	2021-22	8.5	5.0	2022-23	6.5	5.0	2023-24	7.0	5.0	2024-25	7.5	5.0	2025-26	8.0	5.0	2026-27	8.5	5.0	2027-28	9.0	5.0	2028-29	10.0	5.0	More than 5%
Year	Net Result (%)	Yarra Target (%)																																				
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Indicator	Description	Long Term Target Range for Yarra																																				
<p>Adjusted Underlying Result</p>	<p>An indicator of Council’s ability to generate surplus in the ordinary course of business excluding non-recurrent capital grants, non-monetary asset contributions, and other contributions used to fund capital works. A surplus or increasing surplus suggests an improvement in the operating position.</p> <p><u>Adjusted underlying surplus</u> Adjusted underlying revenue</p> <p>VAGO High Risk = less than 0%</p> <p>Medium Risk = 0% - 5%</p> <p>Low Risk = Greater than 5%</p> <div data-bbox="339 1151 1307 1727"> <table border="1"> <caption>Adj Underlying Result Data</caption> <thead> <tr> <th>Year</th> <th>Adjusted Underlying Result (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>2.5</td><td>5.0</td></tr> <tr><td>2019-20</td><td>2.5</td><td>5.0</td></tr> <tr><td>2020-21</td><td>2.8</td><td>5.0</td></tr> <tr><td>2021-22</td><td>3.5</td><td>5.0</td></tr> <tr><td>2022-23</td><td>4.2</td><td>5.0</td></tr> <tr><td>2023-24</td><td>4.8</td><td>5.0</td></tr> <tr><td>2024-25</td><td>5.5</td><td>5.0</td></tr> <tr><td>2025-26</td><td>6.2</td><td>5.0</td></tr> <tr><td>2026-27</td><td>7.0</td><td>5.0</td></tr> <tr><td>2027-28</td><td>7.8</td><td>5.0</td></tr> <tr><td>2028-29</td><td>8.2</td><td>5.0</td></tr> </tbody> </table> </div>	Year	Adjusted Underlying Result (%)	Yarra Target (%)	2018-19	2.5	5.0	2019-20	2.5	5.0	2020-21	2.8	5.0	2021-22	3.5	5.0	2022-23	4.2	5.0	2023-24	4.8	5.0	2024-25	5.5	5.0	2025-26	6.2	5.0	2026-27	7.0	5.0	2027-28	7.8	5.0	2028-29	8.2	5.0	<p>More than 5%</p>
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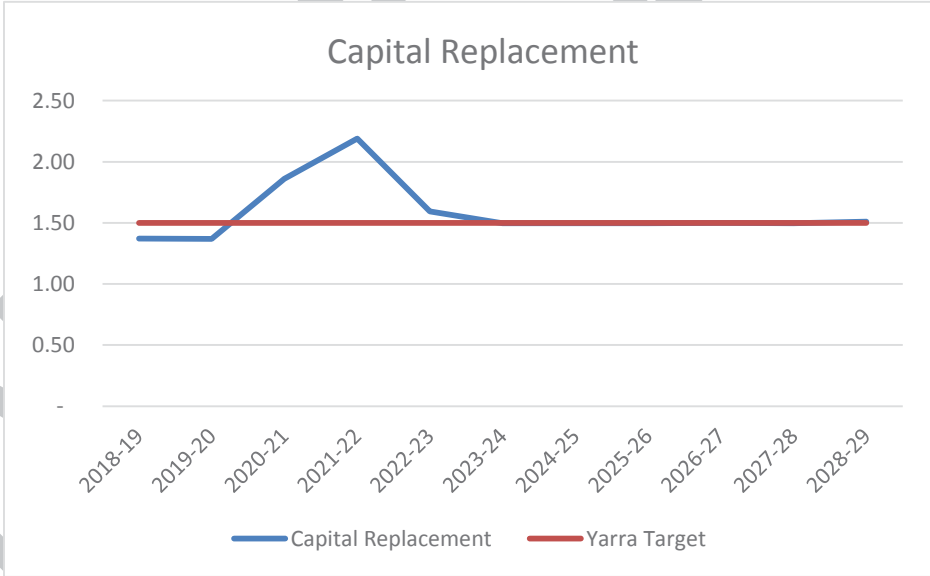
Indicator	Description	Long Term Target Range for Yarra
Liquidity	<p>Measures Council's ability to pay existing liabilities in the next 12 months. A ratio greater than 1.0 means there are more cash and liquid assets than short-term liabilities.</p> <p><u>Current assets</u> Current liabilities</p> <p>VAGO High Risk = less than 75% Medium Risk = 75% to less than 100% Low Risk = greater than 100%</p>  <p>Council has high cash holdings in the early years of the LTFS due to the grant funding received in advance for the Depot relocation project. It ratio decreases in 2020-21 due to the reclassification of the \$32.5m loan to a current liability in that year as it is due to be repaid in 2021-22.</p>	Greater than 1.4

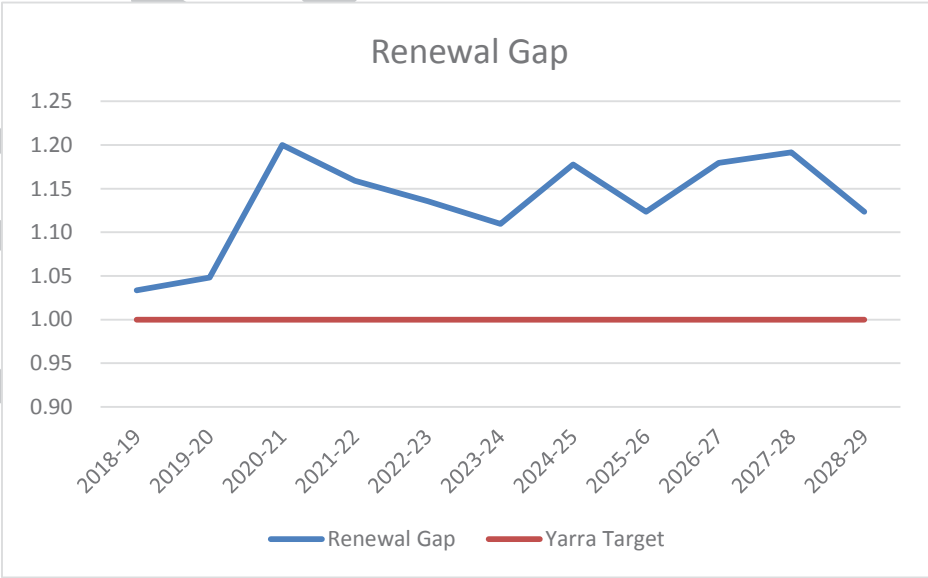
Indicator	Description	Long Term Target Range for Yarra																																				
<p>Unrestricted Cash</p>	<p>To assess Council's freely available cash level.</p> <p><u>Unrestricted cash</u></p> <p>Current liabilities</p> <p>LGV Expected Target: 10% to 300%</p> <p>Local Government Performance and Reporting Indicators</p> <p>No VAGO guidance</p> <div data-bbox="341 1025 1321 1592"> <table border="1"> <caption>Unrestricted Cash Data</caption> <thead> <tr> <th>Year</th> <th>Unrestricted Cash (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>115</td><td>100</td></tr> <tr><td>2019-20</td><td>120</td><td>100</td></tr> <tr><td>2020-21</td><td>60</td><td>100</td></tr> <tr><td>2021-22</td><td>85</td><td>100</td></tr> <tr><td>2022-23</td><td>65</td><td>100</td></tr> <tr><td>2023-24</td><td>68</td><td>100</td></tr> <tr><td>2024-25</td><td>60</td><td>100</td></tr> <tr><td>2025-26</td><td>60</td><td>100</td></tr> <tr><td>2026-27</td><td>62</td><td>100</td></tr> <tr><td>2027-28</td><td>68</td><td>100</td></tr> <tr><td>2028-29</td><td>80</td><td>100</td></tr> </tbody> </table> </div> <p>Council's unrestricted cash is an indicator that will require monitoring over the life of the LTFS.</p>	Year	Unrestricted Cash (%)	Yarra Target (%)	2018-19	115	100	2019-20	120	100	2020-21	60	100	2021-22	85	100	2022-23	65	100	2023-24	68	100	2024-25	60	100	2025-26	60	100	2026-27	62	100	2027-28	68	100	2028-29	80	100	<p>Greater than 100%</p>
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Indicator	Description	Long Term Target Range for Yarra																																				
Debt Commitment	<p>To identify Council's debt redemption strategy.</p> <p><u>Interest & principal repayments</u> Rate Revenue</p> <p>Debt redemption includes loan and finance lease principal and interest as a percentage of rate revenue</p> <p>LGV Expected Target: 0% to 20%</p> <p>Local Government Performance and Reporting Indicators</p> <div data-bbox="338 1081 1273 1657"> <table border="1"> <caption>Debt Commitment Data</caption> <thead> <tr> <th>Year</th> <th>Debt Commitment (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>3</td><td>5</td></tr> <tr><td>2019-20</td><td>3</td><td>5</td></tr> <tr><td>2020-21</td><td>3</td><td>5</td></tr> <tr><td>2021-22</td><td>32</td><td>5</td></tr> <tr><td>2022-23</td><td>5</td><td>5</td></tr> <tr><td>2023-24</td><td>5</td><td>5</td></tr> <tr><td>2024-25</td><td>5</td><td>5</td></tr> <tr><td>2025-26</td><td>5</td><td>5</td></tr> <tr><td>2026-27</td><td>5</td><td>5</td></tr> <tr><td>2027-28</td><td>5</td><td>5</td></tr> <tr><td>2028-29</td><td>5</td><td>5</td></tr> </tbody> </table> </div> <p>The spike in 2021-22 is due to Council's \$32.5M loan being repaid in that year.</p>	Year	Debt Commitment (%)	Yarra Target (%)	2018-19	3	5	2019-20	3	5	2020-21	3	5	2021-22	32	5	2022-23	5	5	2023-24	5	5	2024-25	5	5	2025-26	5	5	2026-27	5	5	2027-28	5	5	2028-29	5	5	Less than or =5%
Year	Debt Commitment (%)	Yarra Target (%)																																				
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Indicator	Description	Long Term Target Range for Yarra																																				
Internal Financing	<p>Assesses Council’s ability to finance capital works using cash generated by its operating cash flows. The higher the percentage, the greater the ability Council has to finance capital works from its own funds.</p> <p><u>Net operating cash flows</u> Underlying revenue</p> <p>VAGO High Risk Less than 75% Medium Risk 75% - 100% Low Risk = Greater than 100%</p> <div data-bbox="341 994 1273 1570"> <table border="1"> <caption>Internal Financing Data</caption> <thead> <tr> <th>Year</th> <th>Internal Financing (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>190</td><td>100</td></tr> <tr><td>2019-20</td><td>120</td><td>100</td></tr> <tr><td>2020-21</td><td>95</td><td>100</td></tr> <tr><td>2021-22</td><td>90</td><td>100</td></tr> <tr><td>2022-23</td><td>100</td><td>100</td></tr> <tr><td>2023-24</td><td>115</td><td>100</td></tr> <tr><td>2024-25</td><td>118</td><td>100</td></tr> <tr><td>2025-26</td><td>122</td><td>100</td></tr> <tr><td>2026-27</td><td>128</td><td>100</td></tr> <tr><td>2027-28</td><td>132</td><td>100</td></tr> <tr><td>2028-29</td><td>135</td><td>100</td></tr> </tbody> </table> </div> <p>The reason for the high result in 2018/19 is due to the \$17.5m of grant funding for the Depot relocation project being received in that year.</p> <p>Council’s internal financing is an indicator that will require monitoring over the life of the LTFS.</p>	Year	Internal Financing (%)	Yarra Target (%)	2018-19	190	100	2019-20	120	100	2020-21	95	100	2021-22	90	100	2022-23	100	100	2023-24	115	100	2024-25	118	100	2025-26	122	100	2026-27	128	100	2027-28	132	100	2028-29	135	100	Greater than 100%
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Indicator	Description	Long Term Target Range for Yarra																																				
Indebtedness	<p>Measures Council's ability to pay the principal and interest on borrowings, as and when they fall due, from the funds it generates. The lower the ratio, the less revenue Council is required to use to repay its debt.</p> <p><u>Non-current liabilities</u> Own sourced revenue</p> <p>The higher the percentage the less able to cover non-current liabilities from revenue generated by Council</p> <p>VAGO High Risk = more than 60% Medium Risk = 40% - 60% Low Risk = less than 40%</p> <div data-bbox="341 1216 1273 1787" data-label="Figure"> <table border="1"> <caption>Indebtedness Data</caption> <thead> <tr> <th>Year</th> <th>Indebtedness (%)</th> <th>Yarra Target (%)</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>26.0</td><td>40.0</td></tr> <tr><td>2019-20</td><td>25.0</td><td>40.0</td></tr> <tr><td>2020-21</td><td>6.0</td><td>40.0</td></tr> <tr><td>2021-22</td><td>19.0</td><td>40.0</td></tr> <tr><td>2022-23</td><td>15.0</td><td>40.0</td></tr> <tr><td>2023-24</td><td>12.0</td><td>40.0</td></tr> <tr><td>2024-25</td><td>10.0</td><td>40.0</td></tr> <tr><td>2025-26</td><td>8.0</td><td>40.0</td></tr> <tr><td>2026-27</td><td>6.0</td><td>40.0</td></tr> <tr><td>2027-28</td><td>4.0</td><td>40.0</td></tr> <tr><td>2028-29</td><td>1.0</td><td>40.0</td></tr> </tbody> </table> </div> <p>Again, the downward spike is due to the reclassification of the interest only loan to a current liability in 2020-21.</p>	Year	Indebtedness (%)	Yarra Target (%)	2018-19	26.0	40.0	2019-20	25.0	40.0	2020-21	6.0	40.0	2021-22	19.0	40.0	2022-23	15.0	40.0	2023-24	12.0	40.0	2024-25	10.0	40.0	2025-26	8.0	40.0	2026-27	6.0	40.0	2027-28	4.0	40.0	2028-29	1.0	40.0	Less than 40%
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Indicator	Description	Long Term Target Range for Yarra
Capital Replacement	<p>This ratio compares the rate of spending on capital works with depreciation. A ratio of less than 1.0 means that capital spend is not keeping pace with the consumption of Council's assets.</p> <p><u>Capital expenditure</u> Depreciation</p> <p>VAGO High Risk Less than 1.0 Medium Risk 1.0-1.5 Low Risk >1.5</p>  <p>The spikes in 2020-21 & 2021-22 are due to the spending of the Depot relocation project, as well as the delivery of the Edinburgh Gardens and Fitzroy Grandstand projects.</p>	Greater than 1.5

Indicator	Description	Long Term Target Range for Yarra																																				
Renewal Gap	<p>This ratio compares the rate of spending on Council's existing assets through renewing, restoring, and replacing existing assets with depreciation. A ratio of less than 1.0 means that renewal spend is not keeping pace with the consumption of Council's existing assets.</p> <p><u>Asset renewal expenditure</u> Depreciation</p> <p>A percentage greater than 100 indicates that Council is maintaining its existing assets. If there has been a past gap in renewal a percentage of greater than 100 is desirable.</p> <p>VAGO High Risk = less than 0.5 Medium Risk = 0.5-1.0 Low Risk = >1.0</p>  <table border="1" data-bbox="341 1223 1273 1798"> <caption>Renewal Gap Data</caption> <thead> <tr> <th>Year</th> <th>Renewal Gap</th> <th>Yarra Target</th> </tr> </thead> <tbody> <tr><td>2018-19</td><td>1.03</td><td>1.00</td></tr> <tr><td>2019-20</td><td>1.05</td><td>1.00</td></tr> <tr><td>2020-21</td><td>1.20</td><td>1.00</td></tr> <tr><td>2021-22</td><td>1.15</td><td>1.00</td></tr> <tr><td>2022-23</td><td>1.13</td><td>1.00</td></tr> <tr><td>2023-24</td><td>1.11</td><td>1.00</td></tr> <tr><td>2024-25</td><td>1.18</td><td>1.00</td></tr> <tr><td>2025-26</td><td>1.13</td><td>1.00</td></tr> <tr><td>2026-27</td><td>1.18</td><td>1.00</td></tr> <tr><td>2027-28</td><td>1.19</td><td>1.00</td></tr> <tr><td>2028-29</td><td>1.12</td><td>1.00</td></tr> </tbody> </table>	Year	Renewal Gap	Yarra Target	2018-19	1.03	1.00	2019-20	1.05	1.00	2020-21	1.20	1.00	2021-22	1.15	1.00	2022-23	1.13	1.00	2023-24	1.11	1.00	2024-25	1.18	1.00	2025-26	1.13	1.00	2026-27	1.18	1.00	2027-28	1.19	1.00	2028-29	1.12	1.00	Greater than 1.0
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Target ranges have been assessed with reference to the VAGO and Local Government Performance and Reporting Indicators.