LONG TERM FINANCIAL STRATEGY

JUNE 2016

TABLE OF CONTENTS

1. INTRODUCTION

This Long Term Financial Strategy (LTFS) has been developed and numerous scenarios explored. The scenario presented is considered the most achievable and conservative option for Council going forward to improve Council financial sustainability into the future.

The main scenario parameters are detailed below:

- Rate Increase at the ESC rate cap level (2.5%), $13.5 million borrowing (move to P&I basis Year 1) and asset sales of $5 million in Years 1 – 3 with open space acquisitions of $5 million in Years 1 – 3.

The scenario relies on asset sales to restore working capital and an increased reliance on borrowing. This is necessary to allow the level of working capital to be lifted.

The data in the Long Term Financial Strategy has been independently verified as part of migrating the information to a new software product externally sourced which calculates the range of assumptions made developing the long term financial outlook for the next 10 years.

The LTFS is a living document subject to ongoing review.

2. OBJECTIVE

Council prepares a Long Term Financial Strategy (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 be evidenced by Council fully renewing its assets as required and generating cash liquidity to meet operational requirements. The Operating Budget will also deliver sufficient cash surplus to enable timely asset renewal and a reasonable level of funding to be available for New/ Upgrade Capital Works and New Initiatives in Operations.

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.

The key lead indicators are:

- Underlying Result / Adjusted Underlying Result
- Liquidity
- Unrestricted Cash
- Indebtedness

Other indicators are:

- Debt Commitment
- Self-Financing
- Renewal Gap
- Capital Replacement

Descriptions of each of these indicators together with the target range sought is provided at Appendix 1.

The framework also includes key assumptions that underpin the financial analysis. The assumptions are outlined at Appendix 2.

Historical assumptions have been reviewed and a number of amendments have been required particularly in the prediction of cash flow. The changes made reflect the changing operating environment at Yarra for example the workforce is more complete (permanently staffed) and as a result cash outgoings are greater and capital works delivery has improved. This also impacts use of cash.

A critical element of the assumptions is the allocated expenditure to the Capital Works Program. This assumes 95% of the capital program will be delivered in cash terms within the first financial year – Year 1 (Yrs.2-3 at 92.5%, Yrs. 4-10 at 90%). The delivery level will be higher but a proportion of that work will not be paid for at 30 June. (The Year 1 capital program includes a high percentage of current contract commitments e.g. North Fitzroy Community Hub completion). The cash usage figure is based on historic trends.

This LTFS also proposes to establish a set of financial principles that provide advice on Council's financial strategy. These are detailed at Appendix 3.

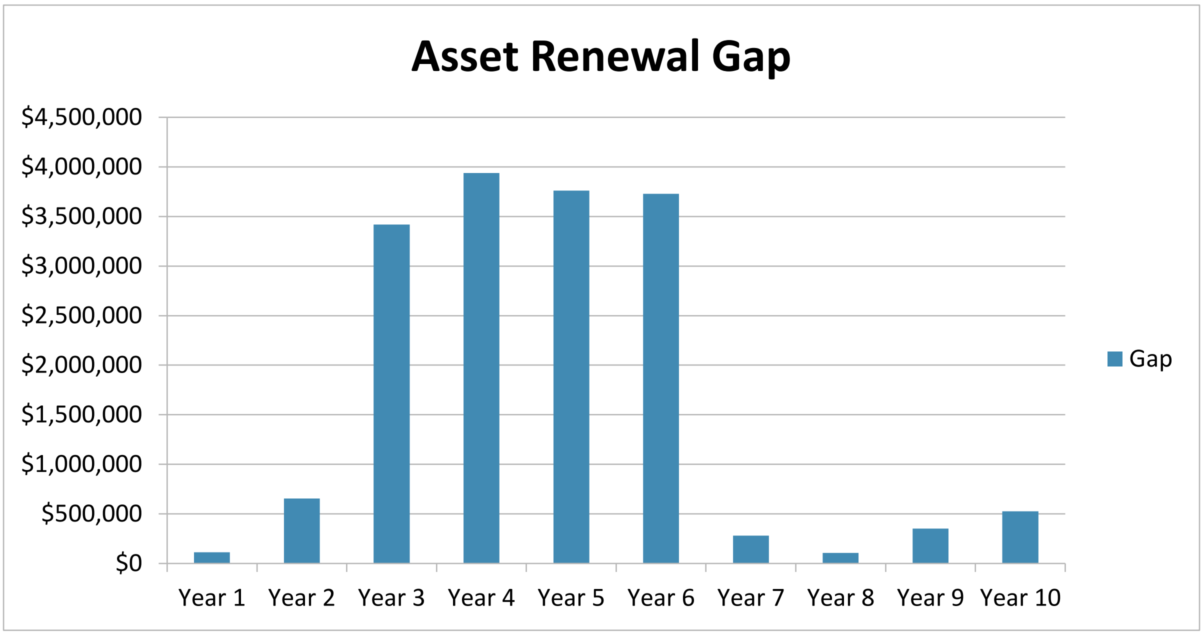
4. FINANCIAL POSITION BACKGROUND

Council's current financial position (predicted 30 June 2016) is constrained and cash management is very tight. In general, Council is performing satisfactorily against benchmark ratio levels established by the Auditor General with the exception of cash related ratios. The Unrestricted Cash ratio is currently low but improves from Year 3 onwards. The Liquidity ratio also needs to improve. The 2015/16 Budget was prepared on the basis of a year of consolidation reflecting growing concerns over cash holding levels and the 2016/17 Budget has been developed to further consolidate Council's cash holding and financial sustainability.

Council is faced with a myriad of requests from community and it has very limited capacity in discretionary funds to respond to these needs.

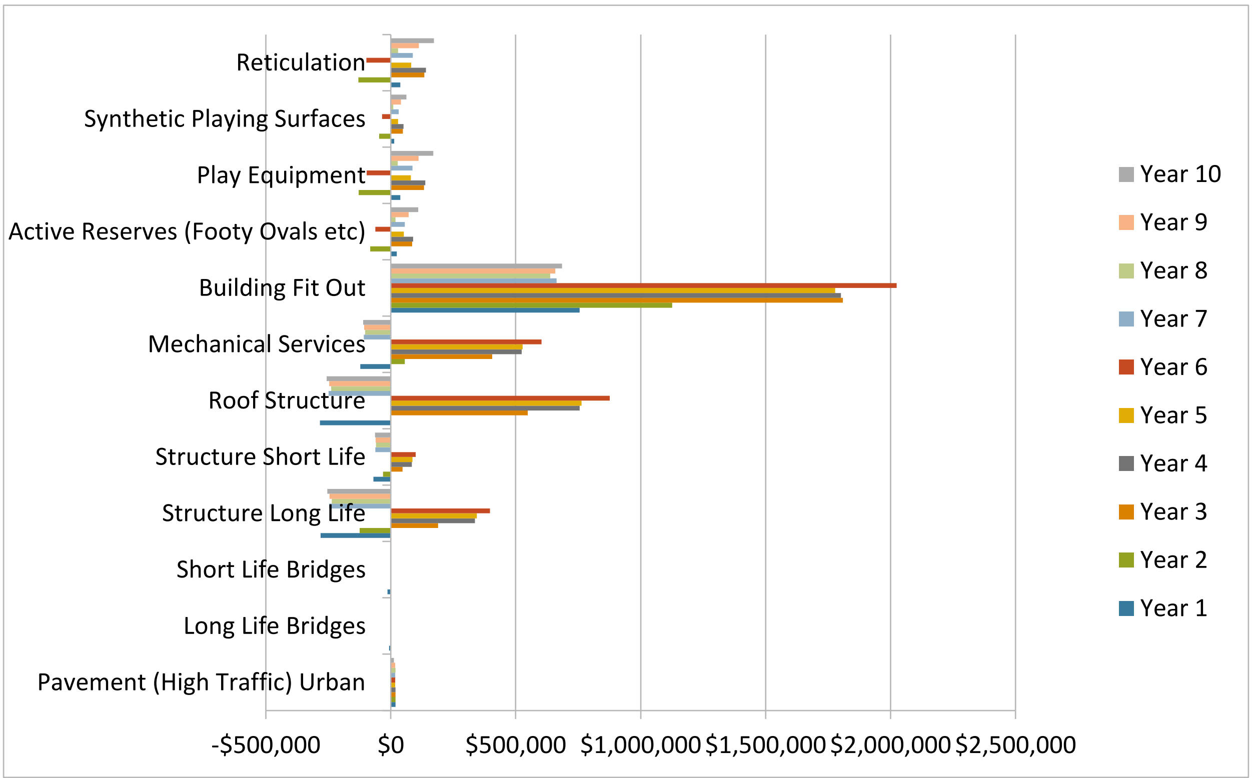
Asset renewal is also not fully funded with a gap of $16.85 million being identified over the next 10 years. Graph 1 indicated the level of shortfall although this is corrected over the life of the LTFS. Generally, Council is adequately meeting its asset renewal obligations within the LTFS.

Graph 1 Asset Renewal Gap – Year 1 - 10



Graph 2 outlines the detail of the areas of shortfall in expenditure. This mainly relates to buildings and associated works.

Graph 2 Asset Renewal Gap – Year 1-10 in detail



Council took a borrowing in November 2014 via the LGFV Bond sponsored by the MAV. This seven year loan of $32.5 million provided funding for payment of the Defined Benefit Superannuation debt, purchase of 345 Bridge Rd, purchase of Connie Benn Centre and an energy performance contract. This loan is an interest only fixed term loan at 4.65%.

5. 2015/16 BUDGET POSITION

The 2015/16 Operating Budget provided for a cash surplus that is used to fund Council's Capital Works Program. The Operating Budget supports more than 100 services to the community and the Capital Works Program is critical to Council's ability to maintain, enhance and build assets to also service community need.

Despite a deliberate plan to grow overall cash holdings in recent years, Council had insufficient cash to balance the budget due to a range of external factors.

The December 2015 forecast has been applied in preparation of this document. The end of year cash position at 30 June 2016 will also be very tight should a 90% delivery of capital works be achieved.

If the Capital Works Program is 90% delivered it is forecast that Council will end the 2015/16 financial year with very limited Unrestricted Cash. Funds required to be held to meet Open Space Reserve requirements are predicted to be $17.1 million.

5.1 CASH HOLDINGS

Council's total cash holding at 30 June 2015 was $22.4 million with $17.1 million applicable for Open Space Reserve obligations. Insufficient cash was available to fully fund carry forward capital works from the 2014/15 financial year ($6.4 million). This reduced cash for working capital.

In addition, Council's cash holding is currently being supported by cash flow from the Fire Services Levy. Fire Services Property Levy generates approximately $13.9 million for the State Government which is collected by Council and forwarded on a quarterly basis. In 2013/14 four quarters were collected but only three quarters paid within that financial year. This unequal cash transfer should be corrected in future so there is equality of collection and payments across the collection years. Correction to allow equal instalments to be accounted for will be made when sufficient cash has been accumulated.

5.1.1 WORKING CAPITAL

At 30 June 2016, it is estimated that Council requires around $15 - $20 million in cash to manage its daily cash needs. These funds are referred to as Working Capital. Currently, these needs are generally being met by use of all cash held including the Open Space Reserve. This is restricting capacity to access Open Space funds.

5.1.2 OPEN SPACE RESERVE

The Open Space Reserve has a balance at 30 June 2015 of $17.1 million. This LTFS assumes a policy to allow acquittal of the Open Space Contribution occurs by applying all capital expenditure (including renewal) offset the contributions received. As a result the balance of the Open Space Reserve is anticipated to be $17.1 million on 30 June 2016.

The interest earnings on the cash in this reserve has not been separated and these earnings provide support to balancing the Operating Budget.

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 CREATION OF DEDICATED WORKING CAPITAL ASSET

To provide certainty for Council's working capital needs a separate amount has been identified for this purpose. The amount reflects the minimum cash level needed to service cash flow requirements during the minimum cash holding period. The amount required is anticipated to be $15 - $20 million at 1 July 2016. The amount held should also increase annually to reflect growth in operations brought about by increases in the property base of about 2%.

Council currently has insufficient cash holding to meet this requirement. This LTFS is built on the assumption that property sales will provide the funds necessary to create the required Working Capital asset of $15-$20 million. Property assets will be converted into a cash asset.

The creation of dedicated Working Capital also allows correction of the Unrestricted Cash ratio to be established at a more satisfactory level.

6.2 RELEASE OF OPEN SPACE RESERVE FUNDS

Council has a stated goal of seeking to acquire open space however it has not been possible to access these funds for acquisitions as these monies support the organisation's working capital requirements.

The approach taken in this LTFS is to create a Working Capital asset to release the Open Space Reserve to acquire new open space. The LTFS makes an allocation of funds to spend Open Space Reserve monies of $15 million in the next three years on open space acquisition subject to the reinstatement of working capital via asset sales.

These acquisitions have been timed so as to not negatively impact financial sustainability but provide opportunities for acquisitions at the earliest time.

Table 1 Asset Sales / Open Space Reserve Allocation Scenario

Year	Amount
2016/17	$5M
2017/18	$5M
2018/19	$5M

Council's Open Space Policy provides an effective funding source for development of its existing open space. It is anticipated that this expenditure will be equal to the income raised. So there will be no increase in the obligation and therefore the financial obligation to the Reserve will not grow. If Open Space contributions exceed capital expenditure then the Reserve additional funds will need to be added to the Reserve balance. But it is anticipated that large fund amounts will not be accumulated to be available for the acquisition of open space beyond the 30 June 2016.

As a consequence the funds available for future purchase of open space will be restricted to the predicted 30 June 2016 Reserve balance of $17.1 million or through allocation within future Capital Budgets.

6.3 RATE CAPPING

In 2016/17 rate capping will be introduced and preliminary details of the scheme have been provided by the Essential Services Commission. An allowance has been made for rate increases as foreshadowed by the ESC together with an allowance for growth via Supplementary Rates.

The Minister for Local Government, The Hon. Natalie Hutchins, announced the rate capping level for 2016/17 on 22 December 2015 at 2.5% for 2016/17 and in future years a 10% efficiency dividend will also be sought. This has been applied in Years 2 and 3.

Predicted future rate increases are outlined below.

Table 2 PREDICTED ESC RATE INCREASES

LTFS	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Rate Cap	**2.50%**	**2.25%**	**2.03%**	**2.03%**	**2.03%**	**2.03%**	**2.03%**	**2.03%**	**2.03%**	**2.03%**

Source: Essential Services Commission

6.4 WASTE SERVICES AND ESC APPROACH

The City of Yarra is one of six Councils in Victoria that does not levy separate waste/recycling charge. However many councils do levy garbage/recycling charges which are included on the rates notice. The level of these charges must be generally linked to the cost of service. The ESC has excluded garbage/recycling charges from the rate cap.

In 2015/16 Council tendered for the main waste contracts and as a result of retendering of the waste contract (including festivals and events) additional costs will be incurred as Council has previously benefitted from a tendering error from the current contractor.

Growth in multi-unit development is also resulting in above average increases in the waste area. In the last 12 months there has been a 4.54% increase in average waste collection numbers and 6.05% for recycling. Waste tipping fees are predicted to grow by 6.33% (Landfill Levy 8.15% and Gate Fees by 3.25%).

Overall waste management expenditure is predicted to rise by $2.2 million in 2016/17 and recycling recovered income fall by $0.040M and then increase annually between 6% and 7%.

Initial advice from the ESC was that waste costs could be quarantined from the Rates Cap without the establishment of an environmental waste charge. This is no longer the case. Unfortunately, this advice was received in mid-December 2015 which is too late in the financial year to consider the establishment of a Waste Charge for 2016/17.

Council provides a range of services which could be charged for including the weekly kerbside garbage and recycling collections, commercial (domestic type), waste and recycling collection and the ‘at call’ hard and green waste collections. All residential properties receive the garbage and recycling service with 2030 (out of a total of 7,558) of commercial industrial properties receiving the service.

An environmental charge can also have the impact of narrowing the spread of waste cost rather than having the cost borne through the whole rate base in general rates. A base waste/environmental charge for all properties is also under consideration. All properties then contribute to waste collection in the public space. Costs for items like litterbins and street sweeping could be included in this category. It is also possible to charge capital overheads as part of the calculation of the waste fees.

The introduction of an environmental charge can also assist with the achievement of environmental goals as pricing mechanisms can be used to encourage environmental performance. The introduction of an environmental charge could also be managed within a social justice environment through the use of concessions.

Table 3 Preliminary analysis of Waste and Cleansing Costs are outlined below.

Waste Management Charges	**2015-16**
	$'000
Direct Waste Costs	
Waste Mgt & Cleansing Bus Unit Exp Budget (5110)	14,345
Capital (Waste Management 330)	50
Natural Account 2397 (Waste Disposal not including Branch 510)	119
Waste Minimisation (BU 3420)	877
Total Waste Budget from Across COY	***15,391***
Indirect Waste Costs (derived from percentage of budgets)	
Engineering Ops Mgt CI Exp Budget (00634)	392
CEO (100)	57
Governance (120)	307
Comms (110)	395
Finance & Payroll (BU 2200, 2230, 2240, 2250 not including CI 00071 or depn, debt, WDV assets, provision)	369
IS (260)	611
HR (140)	202
Director City Works & Assets branch	223
Total Indirect Waste Costs	***2,556***
Total Waste Costs (budgeted) COY	**17,947**

This LTFS initially considered the introduction of an Environmental/Waste Management Service Charge as the ESC allowed these "charges" to be segregated outside the rate cap.

The ESC originally acknowledged that Council's may not wish to immediately move to an Environmental / Waste Service Charge and indicated that partitioning of the Environmental / Waste Service Expenditure and its associated notional rate revenue outside the rate cap would be possible. This approach is no longer available.

This LTFS has been developed on the assumption that an Environmental Waste Charge is introduced in Year 2 (2017/18). Given the significant movement in waste costs predicted over time it will be critical from a financial perspective to isolate these costs from the rates cap.

A paper will be presented to Council in 2016.

6.5 LOAN BORROWINGS

The introduction of rate capping and unbudgeted legal expenditure has had a significant impact on the LTFS and greatly exacerbated Council's already tight financial position. Existing debt is serviced by interest only payments. The previous approach of repaying loan debt is no longer possible.

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.

The LTFS includes a principal repayment in Year 6 for the current loan facility. The balance of the $32.5 million loan will need to be re-tendered at the end of its term and the loan term extended. The loan is serviced by interest only payments but principal and interest repayments are proposed after retendering.

The LTFS proposes additional borrowings of $13.5 million in 2016/17. The new loan facility is recommended to be a flexible arrangement allowing for interest and principal reduction over the term of the loan.

The indebtedness ratio is 21.8% (interest only) at 30 June 2016 and it is proposed to borrow a further $13.5 million in 2016/17 to provide funding for completion of the North Fitzroy Hub and some other costs. This will bring Council's total borrowings to $45 million and its indebtedness ratio to 28.1%.

Debt Commitment ratio remains low risk for the life of the LTFS as a result of moving to a principal and interest approach to debt financing.

Generally, no further borrowing should occur to provide Council with a capacity to access contingency funds should the need arise eg. a further call on the Defined Benefit Superannuation obligation. A hard cap of no more than 40% indebtedness should be maintained as the upper limit of all borrowings.

6.6 LEASING AND RATIONALISATION OF MOTOR VEHICLE AND UTILITY FLEET

Council's motor vehicle and utility fleet is currently purchased and managed directly by Council. As a result an annual capital allocation is required to pay for the changeover cost of these vehicles. In the 2015/16 Budget the net capital allocation was $0.5 million.

Initial investigation indicates that Council's operating costs would be similar under a leasing model but there would be savings in administration, management and control of the fleet. Future capital works funding is not required. In addition, Council would receive a one off cash injection of approximately $1.0 million (net) across 2016/17 and 2017/18 from the sale of the vehicles.

The LTFS has been developed on the assumption that the motor vehicle and utility fleet is leased over the next three years. In addition, it is proposed to also pursue rationalisation of the fleet through improved use of commercial shared vehicles, encouragement of public transport usage and improvements to efficiency of current fleet operations.

6.7 DISPOSAL OF SURPLUS ASSETS AND ENHANCING RETURNS

A more pro-active and entrepreneurial approach to disposal of redundant laneways, investigation of increasing returns and potential for disposal of some assets needs to be pursued to provide overall community benefit. Disposal of some assets to fund new requirement is considered appropriate and the most effective use of community resources. In addition to the receipt of a cash injection from the sale a saving is also made on maintenance and asset renewal costs.

Obtaining a net return from redundant laneway sales of at least $1 million per annum would have significant impact on the LTFS. No allowance has been made for this initiative because of the unpredictable nature of this work but every endeavour should be made to maximise returns from this area.

It is also recommended that assets not required be carefully considered as opportunities for open space creation where relevant or disposal to fund the purchase of other assets.

Opportunities to seek improved returns from building assets that are not fully applied for community use are currently being investigated. It is anticipated that improved financial returns can be achieved from a number of buildings by being more entrepreneurial in property management and improve the use of asset. This will assist Council's overall financial position.

This LTFS includes the sale of $15 million of property to create the Working Capital asset needed to release the Open Space Reserve funds.

A further separate report on the Property Strategy will be presented to Council in 2016.

6.8 FEES AND CHARGES POLICY

It is proposed that Council adopt a strong fees and charges policy that provides a variety of categories of fees and charges from full costing to part subsidy. The calculation of fees would mirror the cost of service provision and where appropriate the fee would be subsidised.

In general, fees should follow the trend in labour costs so that the ratio of subsidy from rates is maintained. There will be circumstances where movement of fees above or below the trend figure is justified. Individual fees should consider cost recovery, competition and ability to generate return on investment. The fees and charges policy would guide the preparation of the Schedule of Fees and Charges.

This LTFS assumes Fees and Charges are generally increased in line with the movement in labour costs based on principle of cost recovery where appropriate and practical.

6.9 NEW SERVICES

Council is already committed to the introduction of new Services in the following areas.

- *GTV9 Community Facility* will operate from 2015/16 at a cost of $160K plus $95K operating grant and is funded within the 2015/16 Budget base.
- *Fitzroy Adventure Playground* will cost $245K from 2015/16 and is funded within the 2015/16 Budget base. Additional amount proposed in 2016/17 of $150K.

- *North Fitzroy Hub* will operate from partway through 2016/17 and with a full year operation from 2017/18. It is anticipated that an additional $800K for a full year operation will be required and this has been allowed for in the LTFS.

6.10 NEW POPULATION AND DEVELOPMENT

Yarra is experiencing a significant increase in new property and population.

Residential dwelling growth is expected to be around 2% pa from 2016 through to 2021 and then decline slightly with growth increasing by about 1.6%.

Table 4 Forecast population, households and dwellings

City of Yarra				Forecast year		
	Summary	**2016**	**2021**	**2026**	**2031**	**2036**
Population		88,120	95,911	103,191	110,512	117,036
Change in population (5yrs)		9,107	7,790	7,280	7,321	6,524
Average annual change		2.21	1.71	1.47	1.38	1.15
Households		39,431	43,178	46,741	50,267	53,452
Average household size		2.19	2.18	2.17	2.17	2.16
Population in non private dwellings		1,604	1,604	1,604	1,604	1,604
Dwellings		41,921	46,103	49,981	53,757	57,166
Dwelling occupancy rate		94.06	93.66	93.52	93.51	93.50

Population and household forecasts, 2011 to 2036, prepared by .id the population experts, August 2013.
http://www.id.com.au

.id the population experts

The LTFS provides for <u>no net growth in labour costs</u> to accommodate the increased population and dwellings being serviced. Requirements to fulfil statutory obligations or increased customer demand must be sourced from within the existing workforce allocation.

6.11 ENHANCED DEBT MANAGEMENT

A significant task to improve debt management is being driven by the Finance Branch. This involves the review of historical debt across all aspects of Council's operations. It is anticipated that this work should be complete by 30 June 2016. An improvement to cash flow has been incorporated into the cash flow assumptions that underpin this LTFS.

Further key initiatives are the establishment of 4 instalment rate payments (removing the annual payment option) as the minimum standard of payment and introduction of credit card surcharge fee. These two debt management initiatives have been incorporated into this LTFS.

6.12 LEGAL CASES

An allocation has been made within the LTFS to accommodate legal settlement costs in the 2015/16 and 2016/17 financial years.

6.13 INTRODUCTION OF ENHANCED PARKING ENFORCEMENT

Two key recommendations from the Parking Service Review were for Council to consider the introduction of enhanced enforcement on Sundays for key locations across the City and to introduce consistent signage given that some activity centres have inconsistent signage deriving from pre-amalgamation. Parking is at a premium in the City and both these measures will assist with parking management.

No allowance has been included in the LTFS for this initiative as further review of estimated additional revenues will be undertaken.

6.14 LEISURE CENTRES IMPROVED RETURNS

An extensive Service Review has been undertaken into the operation of Council's Leisure Centres. A number of strategic opportunities exist to improve Council's overall financial return from these operations while also enhancing services to the community. However some of these initiatives require capital funding to achieve improved returns.

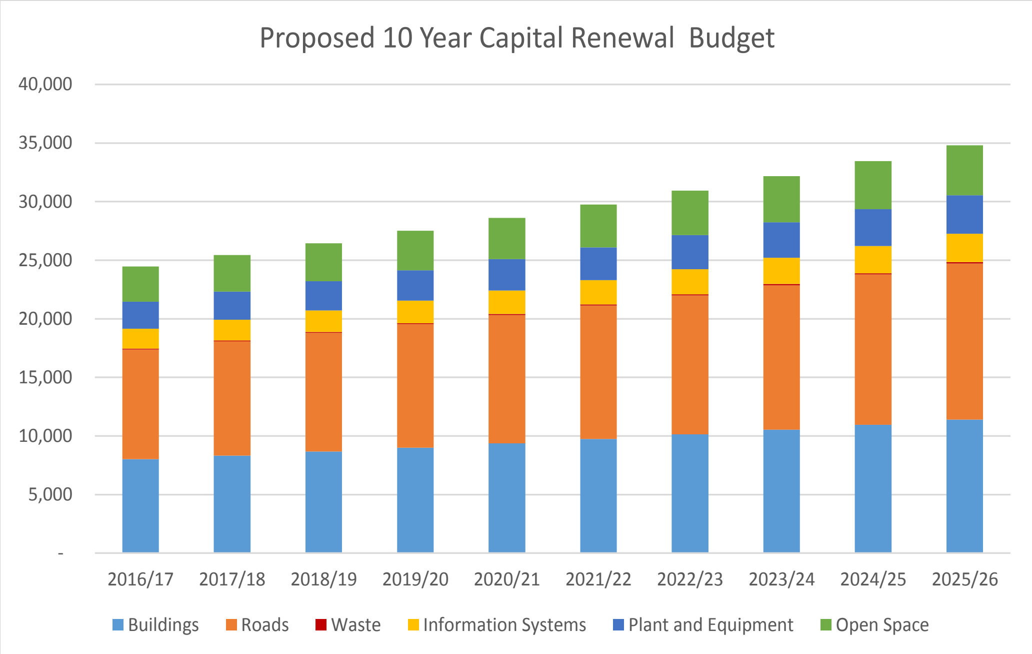
No allowance has been made within the LTFS for this initiative.

6.15 ASSET RENEWAL AND NEW AND UPGRADE EXPENDITURE

Information from the Asset Management Plans are included.

As part of the preparation of this LTFS the cost of renewal works has been indexed to reflect the future cost of works in year 2-10 of the LTFS. An indexation allowance of 4% has been provided reflecting the anticipated costs of works following historic trends in excess of CPI.

Graph 3 Proposed 10 Year Capital Renewal Budget



New assets are being driven by a number of regular programs being driven from Strategies and Plans. These include water sensitive urban design, reduction in potable water e.g. Edinburgh Gardens, Activity Centre enhancements generating new road works, public toilets and LATMs. These types of assets also create an additional maintenance requirement of approximately 1% per annum going forward.

This LTFS indicates that funds available for New and Upgrade Capital Expenditure and New Initiatives in Operations will be very low ($2 million) in 2016/17 financial year (excl. North Fitzroy Community Hub) and remain low over the life of the LTFS. Renewal of assets is prioritised to enhance financial sustainability.

Estimated Capital Expenditure as outlined in Table 6

Capital cashflow	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**
Renewal	$24M	$25M	$27M	$28M	$29M	$31M	$32M	$32M	$34M	$36M
C/Fwd	$5M	$3M	$3M	$3M	$3M	$3M	$3M	$3M	$3M	$3M
NFCH (new)	$5M									
Open Space Purchase	$5M	$5M	$5M							
	$39M	**$33M**	**$35M**	**$31M**	**$32M**	**$34M**	**$35M**	**$35M**	**$37M**	**$39M**
New / Upgrade / New Initiatives	$2M	$5M	$5M	$5.5M	$5.5M	$4M	$6.5M	$10M	$10M	$11M
Total	**$41M**	**$38M**	**$40M**	**$36.5M**	**$37.5M**	**$37.9M**	**$41.5M**	**$45M**	**$47M**	**$50M**

7. KNOWN MATTERS TO BE QUANTIFIED

Council has a number of initiatives underway to gather efficiencies and improve its financial position including Service Reviews, Revenue Strategy and review of Strategies and Plans. Generally, it is too early in the development of these initiatives to incorporate these outcomes.

7.1 FUTURE INITIATIVES

A number of other key issues have also been identified as being likely to have a significant impact on the LTFS but are unquantified at this time. These include:

Fitzroy Town Hall – future use

Gasworks site including Indoor Sports Stadium and Depot relocation (no allowance in LTFS)

Richmond Secondary College impact

Amcor Community Facilities - Modelling is being undertaken of the likely impact of the Amcor development on Council's financial position and initial estimates are a cost neutral position. Given the uncertainty of the assumptions at this time no amendment to the LTFS has been made.

7.2 CONTINGENT LIABILITIES

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

- An allowance of $500K is provided for in the North Fitzroy Hub 2015/2016 capital project in case a final settlement amount is required for the compulsory acquisition of the land.
- Future calls from the Local Government Defined Benefits Scheme.
- Council has received a $500K grant for the Lourdes development which will be required to be repaid if this development does not proceed or the grant reallocated.
- Costs associated with changes arising from the reform of the HACC service and NDIS.

The LTFS should be regularly updated to incorporate these matters when information allows.

8 FINANCIAL SCENARIOS AND OUTCOMES

8.1 KEY PARAMETERS

Table 7 Summary of Key Parameters

LTFS	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Rate Revenue	2.50%	2.25%	2.03%	2.03%	2.03%	2.03%	2.03%	2.03%	2.03%	2.03%
Supplementary Rates	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M	$1.6M
Victorian Grants Commission	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Government Grants	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Parking Revenue	4.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Charges Fees & Fines	4.40%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Statutory Fees & Charges	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Leisure Centre Fees	4.40%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Other Income	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Costs	4.40%	2.90%	2.90%	2.90%	2.90%	2.95%	2.95%	2.96%	2.96%	2.96%
Contract Payments	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Maintenance*	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Materials & Services	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Consumer Price Index (CPI)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

NB: New operating Initiative funding for 2016/17 has been included with the new funds available in the capital program ($2.0M).

*Maintenance cost increases include inflation (2.5%) and a 1% additional requirement for annual growth in capitalised assets.

8.2 KEY OUTCOMES

Key outcomes are outlined below:

Table 8 Summary of LTFS (cash flows)

LTFS	(Yr 0)	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Cash Flows from Operating Activities :-											
Rate Revenue	97,715	101,846	106,812	111,230	115,733	120,282	124,923	129,659	134,493	139,425	144,458
User Charges	25,843	26,207	26,381	27,136	27,919	28,725	29,554	30,408	31,285	32,189	33,118
Parking Revenue	25,017	26,230	26,858	27,506	28,175	28,863	29,571	30,300	31,049	31,819	32,611
Government Grants	11,149	12,257	12,007	12,300	12,600	12,908	13,223	13,546	13,859	14,198	14,545
Reimburements & Contributions	6,490	5,644	5,417	5,634	5,803	5,977	6,157	6,341	6,531	6,727	6,929
Interest received	405	469	570	651	680	736	815	797	767	807	832
Service Level Efficiency Dividend			500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500
Employee Costs	(70,946)	(74,733)	(77,110)	(79,347)	(81,649)	(84,018)	(86,497)	(89,051)	(91,683)	(94,395)	(97,158)
Payment to Suppliers	(63,506)	(68,252)	(67,545)	(69,923)	(71,975)	(75,368)	(77,639)	(80,531)	(83,560)	(86,552)	(88,715)
Net Cash Flows from Operating Activities	**32,167**	**29,666**	**33,891**	**36,187**	**38,786**	**40,105**	**42,607**	**44,469**	**46,241**	**48,217**	**51,121**
Cash Flows from Investing Activities :-											
Payments for Property, Plant & Equipment	(29,558)	(38,903)	(35,104)	(36,954)	(32,355)	(33,705)	(35,595)	(37,899)	(41,206)	(42,982)	(45,665)
Proceeds from Sales	788	5,603	5,650	5,597	634	651	656	693	693	693	693
Net Cash Flows from Investing Activities	**(28,770)**	**(33,300)**	**(29,454)**	**(31,357)**	**(31,722)**	**(33,054)**	**(34,939)**	**(37,206)**	**(40,513)**	**(42,289)**	**(44,972)**
Net Cash Flows from Financing Activities	**(1,511)**	**10,270**	**(3,230)**	**(3,230)**	**(3,230)**	**(3,230)**	**(13,230)**	**(4,583)**	**(4,583)**	**(4,583)**	**(4,583)**
Net Change in Cash Held	1,885	6,636	1,206	1,600	3,835	3,821	(5,562)	2,680	1,146	1,345	1,566
CUMULATIVE Cash Balances ($'000)											
Cash at Beginning of the Financial Year	22,435	24,320	30,957	32,163	33,763	37,598	41,418	35,857	38,537	39,682	41,027
Cash at End of the Financial Year	**24,320**	**30,957**	**32,163**	**33,763**	**37,598**	**41,418**	**35,857**	**38,537**	**39,682**	**41,027**	**42,592**
Less Minimum Cash Requirements											
Working Capital/Trust Funds	7,151	18,787	24,285	25,159	28,518	25,352	28,063	29,323	29,673	29,710	31,112
Open Space Reserve (cash)	17,091	12,091	7,091	1,675	- 0	- 0	- 0	- 0	- 0	- 0	- 0
General Reserves	79	79	79	79	79	5,066	7,794	9,214	10,010	11,318	11,481
Debt Repayment Reserve	-	-	709	6,850	9,000	11,000	-	-	-	-	-
Total Minimum Cash Balance	**24,321**	**30,957**	**32,163**	**33,763**	**37,597**	**41,418**	**35,857**	**38,537**	**39,682**	**41,027**	**42,593**
Unallocated Funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note: Year 0 refers to the forecast for 2015/16; Year 1 is the Proposed Budget for 2016/17.

This LTFS proposes asset sales over Years 1-3 to restore Working Capital. Debt levels are relatively high and debt payment is interest and principal for the new loan borrowings of $13.5 million. This LFTS provides Council with the capacity to fund its day to day operations and provide a reasonable cash surplus to enable a high level of self-financing of its capital works program and new initiatives.

The following table outlines key financial indicators, suggested long term target ratios for Yarra and performance as outlined in the LTFS. Graphical representations of these indicators are shown below the following table. The target range for the indicators have been developed considering the Victorian Auditor General's financial sustainability indicators (subject to change)

Further improvement to the City's financial position is required to attain the long term targets for financial sustainability.

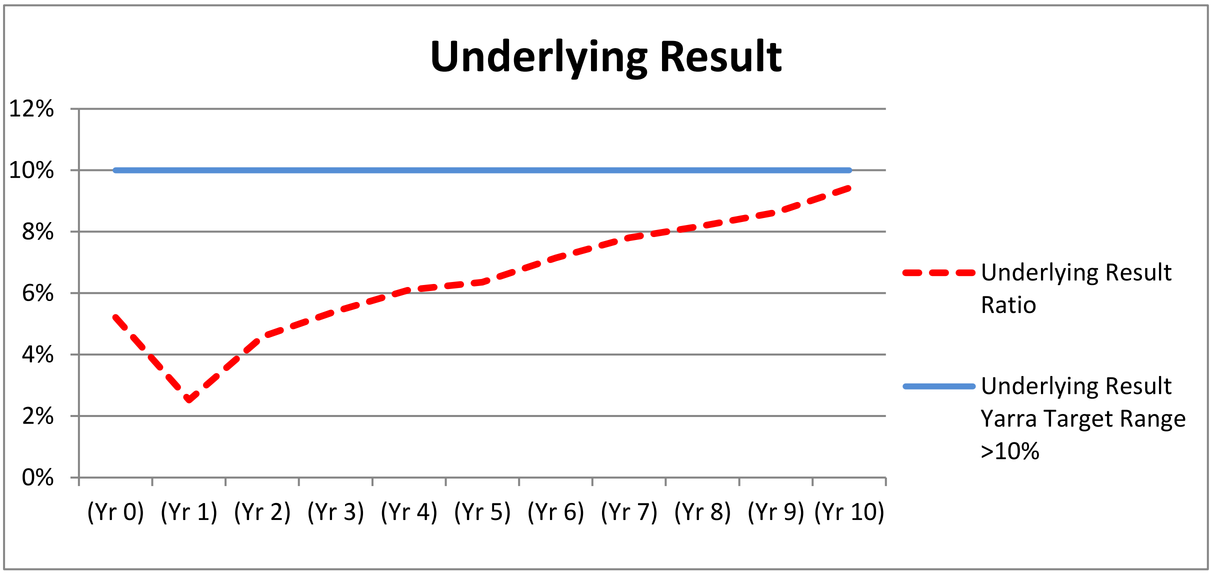
Table 9 Key Financial Indicators

LTFS Ratios (VAGO Old)	Yarra Target Range	Metro Averages	(Yr 0)	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)	VAGO (Old) Medium Target Range
Year			15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	
Underlying Result	>10%	12%	5%	3%	5%	5%	6%	6%	7%	8%	8%	9%	9%	-10% - 0%
Liquidity	>150%	199%	112%	124%	125%	127%	134%	113%	119%	123%	124%	124%	130%	100% - 150%
Unrestricted Cash	>75%		8%	39%	61%	78%	91%	78%	78%	82%	83%	84%	88%	
Debt Commitment	<5%		2%	2%	2%	2%	2%	2%	1%	1%	1%	1%	1%	
Indebtedness	<30%	16%	22%	28%	26%	25%	23%	17%	13%	11%	9%	7%	6%	40-60%
Self-financing	>25%		19%	17%	19%	19%	20%	20%	21%	21%	21%	21%	22%	10%-20%
Renewal Gap	>110%	114%	117%	116%	118%	125%	127%	129%	126%	136%	133%	138%	143%	50-100%
Capital Replacement	>150%	150%	144%	180%	160%	165%	141%	144%	150%	156%	166%	170%	177%	100% - 150%
Debt Commitment (Pr + I)	<5%		2%	3%	3%	3%	3%	3%	11%	4%	3%	3%	3%	

LTFS Ratios (VAGO New)	Yarra Target Range	Metro Averages	(Yr 0)	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)	VAGO (New) Medium Target Range
Year			15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	
Net Result	>10%	12%	6%	3%	5%	6%	6%	7%	7%	8%	8%	9%	10%	-10% - 0%
Liquidity	>150%	199%	112%	124%	125%	127%	134%	113%	119%	123%	124%	124%	130%	75% - 100%
Internal financing	>75%		112%	89%	115%	115%	122%	121%	122%	120%	114%	114%	114%	75% - 100%
Renewal Gap	<5%		117%	116%	118%	125%	127%	129%	126%	136%	133%	138%	143%	50-100%

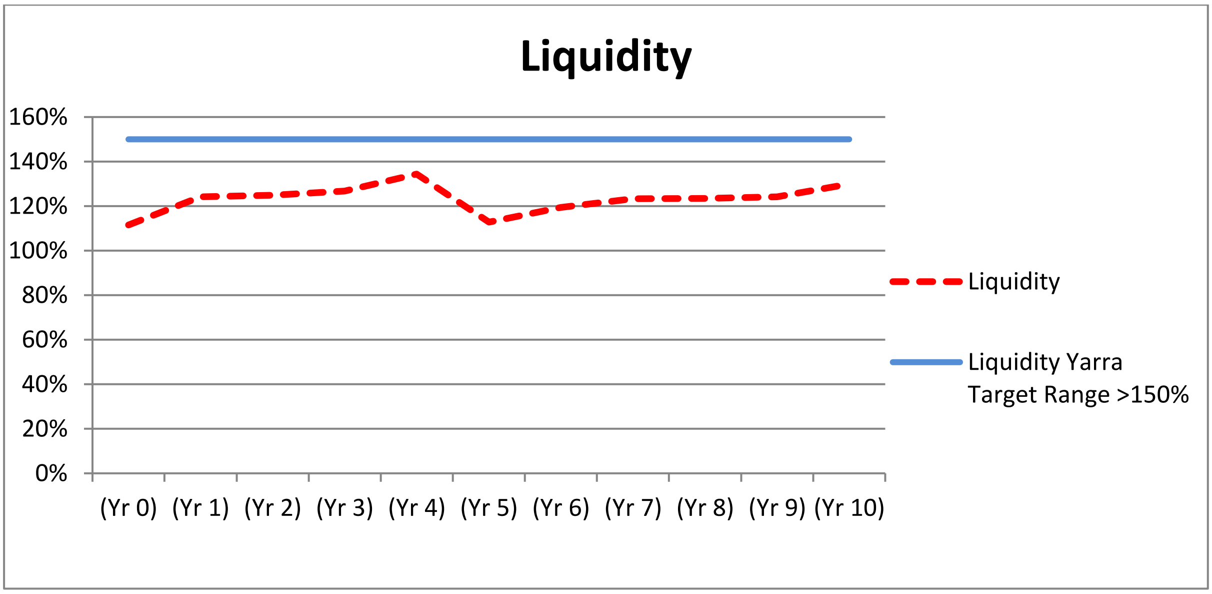
GRAPHS:

Graph 4 – Underlying Result



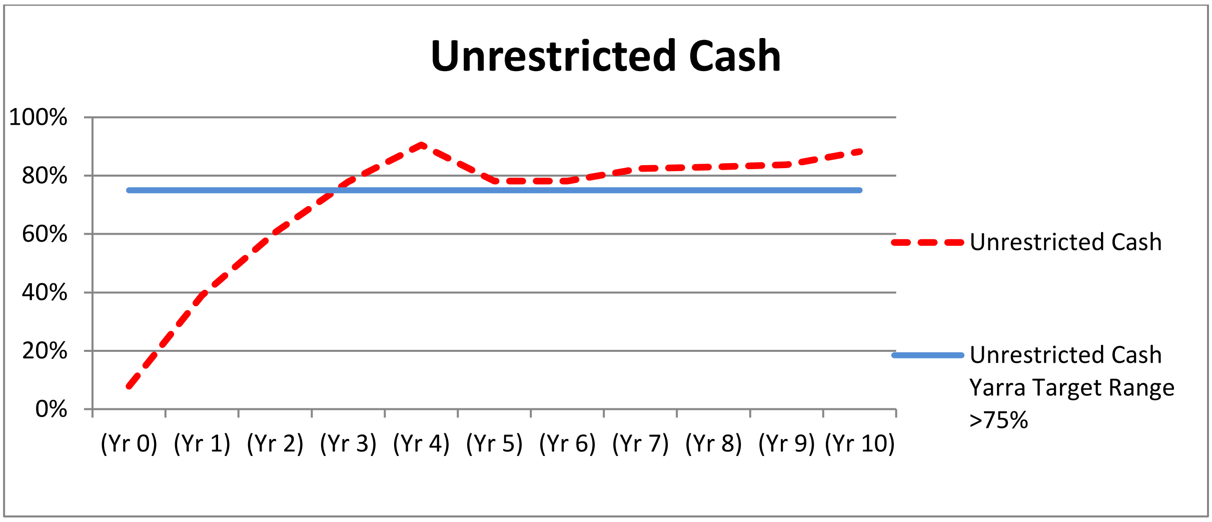
An indicator of the sustainable operating result required to enable Council to continue to provide core services and meet its objectives. Ideally the red line should exceed the target blue line.

Graph 5 - Liquidity



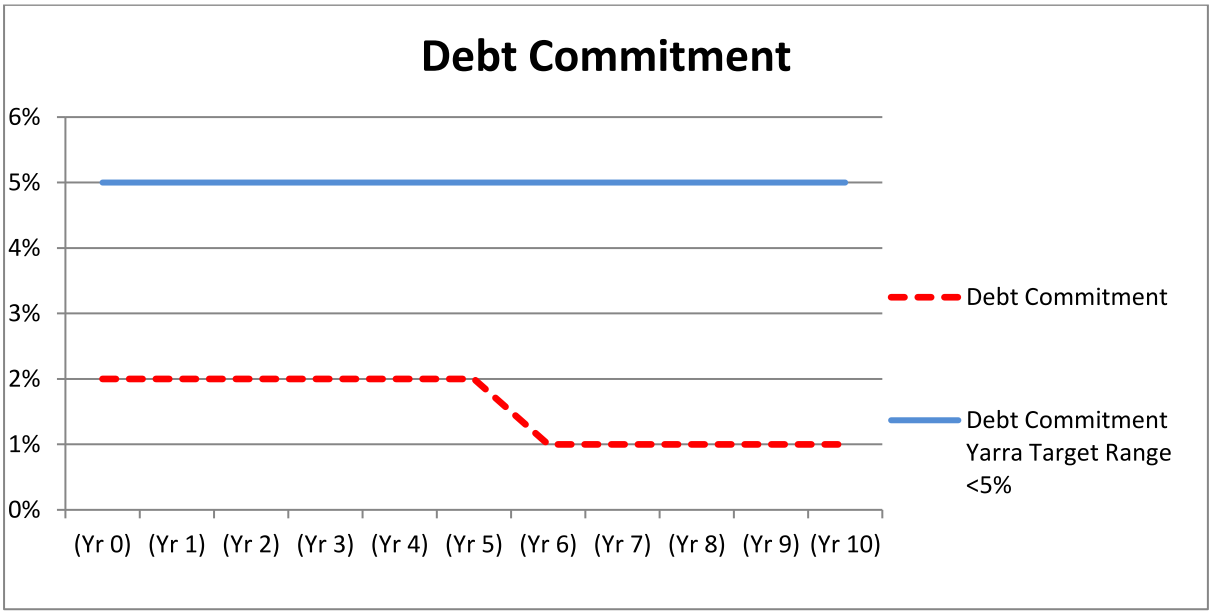
To assess Council's ability to meet current commitments. Ideally the red line should exceed the target blue line.

Graph 6 – Unrestricted Cash



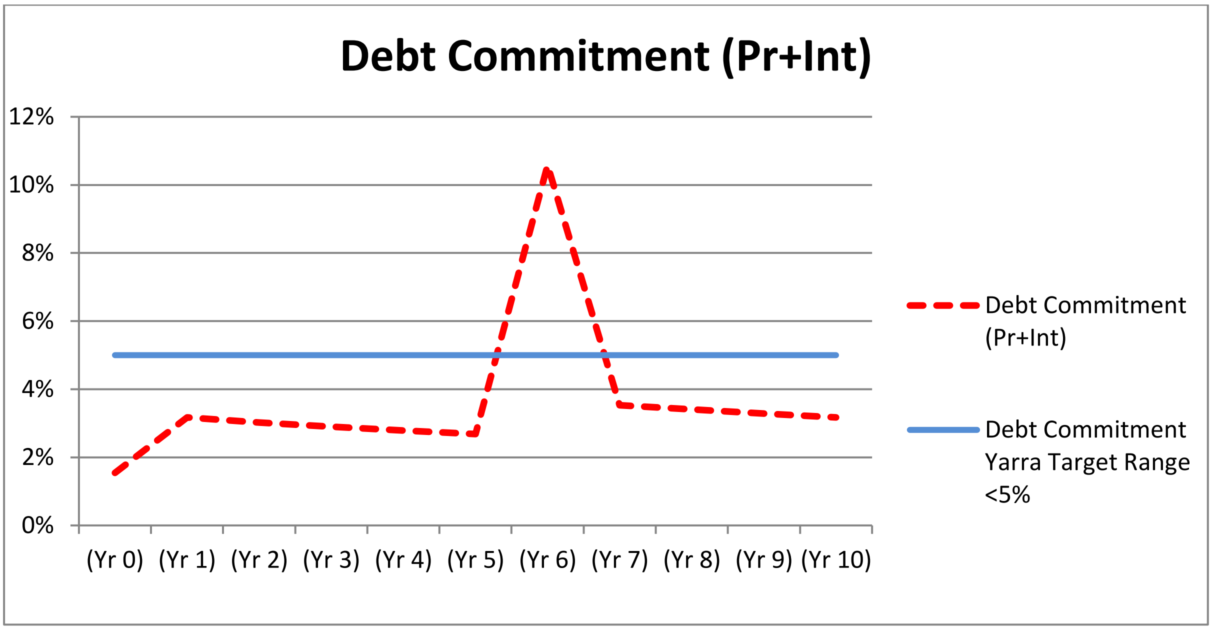
To assess Council's freely available cash level. Ideally the red line should exceed the target blue line.

Graph 7a – Debt Commitment (interest only)



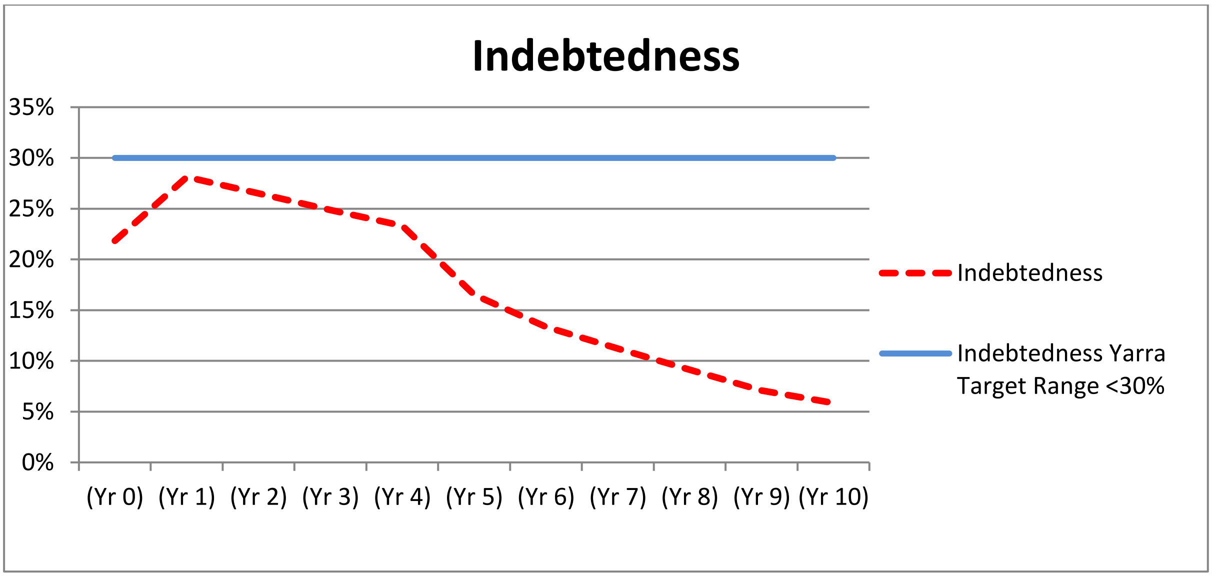
To identify Council's debt redemption strategy. Ideally the red line should **not** exceed the target blue line.

Graph 7b – Debt Commitment (principal + interest)



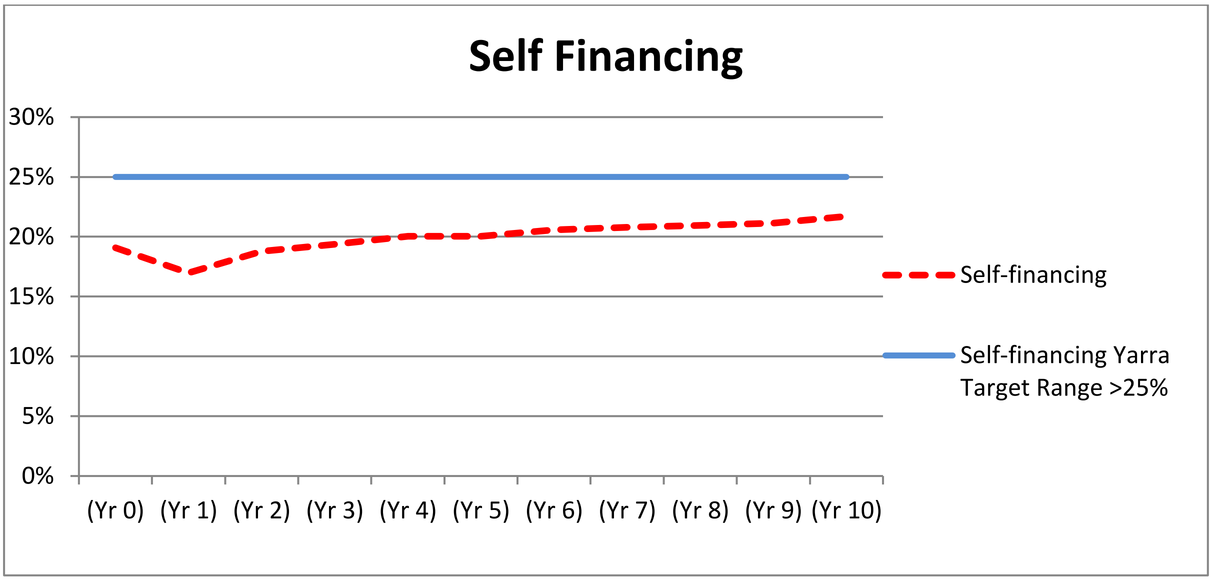
To identify Council's debt redemption strategy. Ideally the red line should **not** exceed the target blue line. The reason for the increase in Debt Commitment in Year 6 is due to an additional principal repayment (Refer table 8).

Graph 8 – Indebtedness



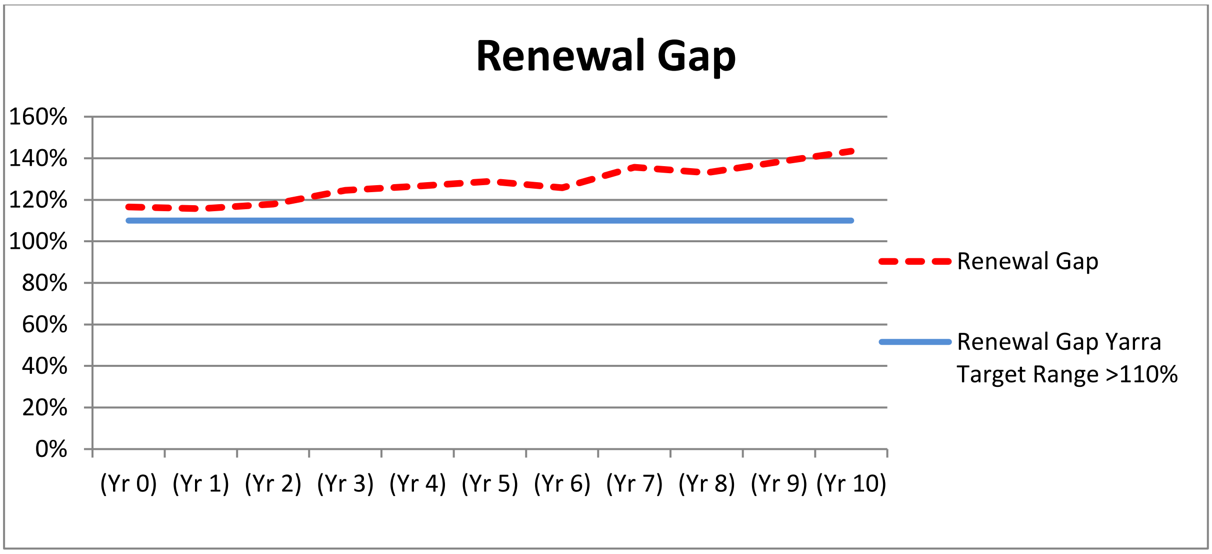
Indicates reliance on debt to fund capital programs. Ideally the red line should **not** exceed the target blue line.

Graph 9 – Self Financing



Indicates reliance on debt to fund capital programs. Ideally the red line should exceed the target blue line.

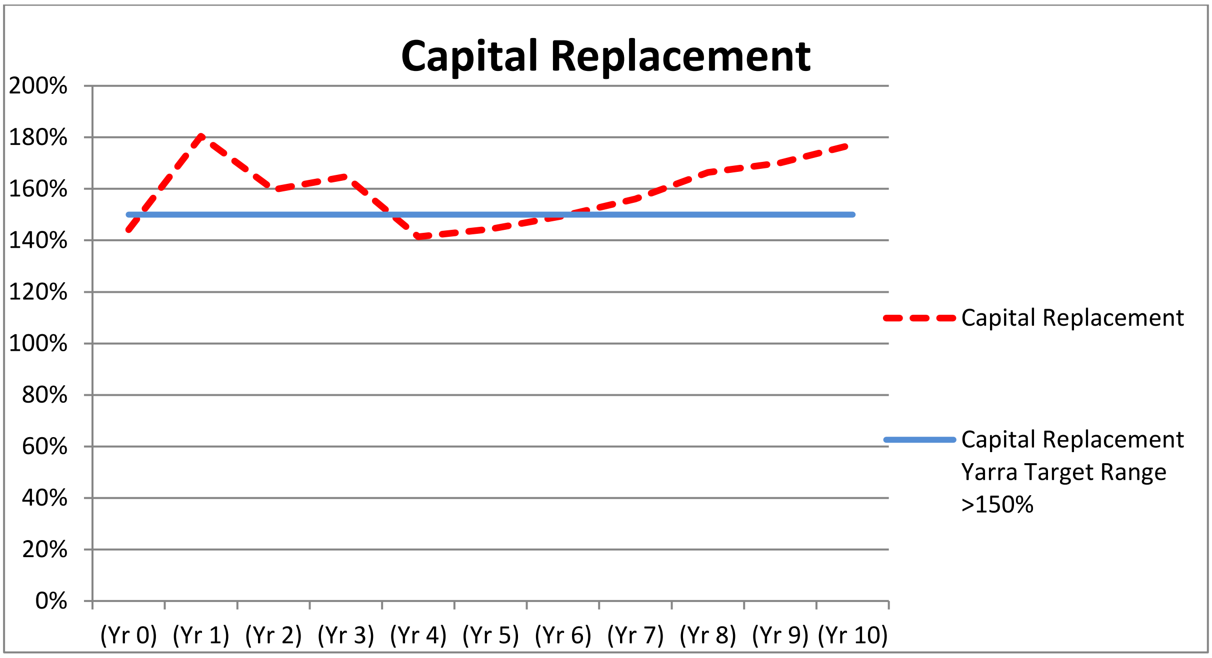
Graph 10 – Renewal Gap



To assess Council's ability to renew assets as required. Ideally the red line should exceed the target blue line.

The renewal gap appears to be trending positively however anecdotal evidence suggests that asset renewal is not meeting community expectations in all circumstances eg leisure centre infrastructure.

Graph 11 – Capital Replacement



Measures the replacement of assets is consistent with their consumption. Ideally the red line should exceed the target blue line.

The challenge for Council will be to improve its overall financial sustainability by improving the performance of the key financial indicators.

APPENDIX 1 KEY FINANCIAL INDICATORS DESCRIBED

Indicator	**Description**	**Long Term Target Range for Yarra**
Adjusted Underlying Result	An indicator of the sustainable operating result required to enable Council to continue to provide core services and meet its objectives. <u>Adjusted underlying surplus</u> Adjusted underlying revenue A positive result indicates a surplus. VAGO High Risk = less than negative 10% Medium Risk = Negative 10% to zero	More than 10%
Liquidity	To assess Council's ability to meet current commitments. <u>Current assets</u> Current liabilities A percentage higher than 100% means that there is more cash and liquid assets than short term liabilities VAGO High Risk = less than 100% Medium Risk = 100% - 150%	Greater than 150%
Unrestricted Cash	To assess Council's freely available cash level. <u>Unrestricted cash</u> Current liabilities VAGO High Risk = less than 10% Low Risk more than 10% Target based on Local Government Performance and Reporting Indicators	Greater than 75%
Debt Commitment	To identify Council's debt redemption strategy. <u>Debt servicing and redemption costs</u> Rate Revenue Debt redemption includes loan and finance lease principal and interest as a percentage of rate revenue Local Government Performance and Reporting Indicators	Less than 5%
Indebtedness	Indicates reliance on debt to fund capital programs. <u>Non-current liabilities</u> Own sourced revenue The higher the percentage the less able to cover non-current liabilities from revenue generated by Council VAGO High Risk = more than 60% Medium Risk = 40% - 60%	Less than 30%

Self-Financing	Indicates reliance on debt to fund capital programs. Net operating cash flows Underlying revenue VAGO High Risk Less than 10% Medium Risk 10% - 20%	Greater than 25%
Investment Renewal Gap	To assess Council's ability to renew assets as required. Asset renewal expenditure Depreciation 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. VAGO High Risk = less than 50% Medium Risk = 50% - 100%	Greater than 110%
Capital Replacement	Measures the replacement of assets is consistent with their consumption. Capital expenditure Depreciation VAGO High Risk Less than 100% Medium Risk 100% - 150%	Greater than 150%

Target ranges have been assessed with reference to the VAGO and Local Government Performance and Reporting Indicators.

APPENDIX 2 CASHFLOW PARAMETER ASSUMPTIONS

Cash Flow Parameters

CATEGORY	2017 LTFS	2018 LTFS	YR 3 -10 LTFS	REASON
Rate Revenue	99.5% plus 10% opening debtor balance	99.5% Plus 10% opening debt balance	99.5% Plus 10% opening debt balance	Current collection rate. Opening debt stable or improving.
Parking Enforcement	90% Plus 10% parking debt	90% Plus 10% parking debt	90% Plus 10% parking debt	Current trend based on 50% collection for infringements. Other income from meters and permits is cash/credit.
Leisure	99%	99%	99%	Opening debt relatively stable number. Most income is cash or credit.
Other charges fees & fines (debtors)	97.5% Plus 10% opening debt	97.5% Plus 10 % opening debt	97.5% Plus 10 % opening debt	Opening debt relatively stable number.
Employee Costs	97.5%	97.5%	97.5%	Current staffing trend at near full employment.
Government Grants	100%	100%	100%	Collection history.
Capital Works Program	95% plus carry forward	92.5% plus carry forward	92.5% (Yr 3) 90% (Yrs 4-10) plus carry forward	History plus consideration of NFCH contract and high percentage of renewal projects.
Payments to Suppliers	100%	100%	100%	Variation in Balance Sheet holdings of payables and accruals.

APPENDIX 3 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 the 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
- Achieve a Liquidity Ratio of +150% to ensure the maintenance of the required level of cash to meet operational requirements and strengthen this position over the years of the LTFS. (aspirational target)
- 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 (P&I) of 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 (aspirational target)

Asset management

Council will

- 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 4 LTFS SCENARIO

High level Parameters

Rates General 2.5%

Land Sale $5 million in Year 1 – 3 (to restore working capital)

Open Space Reserve Land Acquisition $5 million in Year 1 – 3

Additional Loan Borrowings $13.5 million (principal and interest)

Reduction in Operating Labour $500,000 base Year 1

Reduction in Operating Materials $500,000 base Year 1

Reduction in Operations Budget – Service Level Efficiency Dividend (from Yr. 2) additional $500,000 each year

Open Space Contributions acquitted against Capital expenditure from 2015/16

Loan borrowing retendered Year 7 refinanced as Principal and Interest

APPENDIX 5 OPERATING AND CAPITAL ACTIVITIES

LTFS Operating Statement Year 0 - Year 10

LTFS	(Yr 0)	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Revenue from Operating Activities											
Rate Revenue	97,861	101,964	106,939	111,359	115,867	120,420	125,067	129,808	134,647	139,584	144,623
Victorian Grants Commission	889	1,795	1,831	1,868	1,905	1,943	1,982	2,022	2,062	2,103	2,145
Government Grants	8,859	9,180	9,310	9,543	9,781	10,026	10,276	10,533	10,797	11,067	11,343
Grants - Capital	1,401	1,281	865	889	914	939	965	991	1,000	1,028	1,056
Parking Revenue	27,385	28,617	29,333	30,066	30,818	31,588	32,378	33,187	34,017	34,867	35,739
Charges Fees & Fines	14,857	16,102	15,978	16,441	16,918	17,408	17,913	18,433	18,967	19,517	20,083
Leisure Centre Fees	9,056	9,472	9,729	10,011	10,302	10,600	10,908	11,224	11,550	11,885	12,229
Reimbursements & Contributions	6,490	5,644	5,417	5,634	5,803	5,977	6,157	6,341	6,531	6,727	6,929
Other Income	2,034	865	886	909	931	955	978	1,003	1,028	1,054	1,080
Total Revenue from Operating Activities	**168,832**	**174,921**	**180,289**	**186,720**	**193,239**	**199,857**	**206,624**	**213,543**	**220,599**	**227,832**	**235,229**
Revenue from Outside of Operating Activities											
Interest Revenue	405	469	570	651	680	736	815	797	767	807	832
Total Revenue	**169,237**	**175,389**	**180,859**	**187,371**	**193,919**	**200,593**	**207,439**	**214,340**	**221,366**	**228,639**	**236,061**
Operating Expenses from Ordinary Activities											
Employee Costs	(72,765)	(76,067)	(78,273)	(80,542)	(82,878)	(85,282)	(87,798)	(90,390)	(93,061)	(95,813)	(98,647)
Contract Payments	(13,060)	(12,591)	(12,495)	(12,808)	(13,128)	(13,956)	(13,792)	(14,137)	(14,491)	(14,853)	(15,224)
Waste Management Contract	(7,400)	(9,704)	(10,334)	(11,006)	(11,721)	(12,483)	(13,295)	(14,159)	(15,079)	(16,059)	(16,059)
Maintenance	(7,934)	(9,362)	(9,755)	(10,130)	(10,504)	(11,391)	(12,076)	(12,797)	(13,567)	(14,206)	(14,961)
Other Materials & Services	(35,112)	(36,415)	(34,775)	(35,788)	(36,427)	(37,337)	(38,271)	(39,228)	(40,208)	(41,214)	(42,244)
Provision for Doubtful Debts	(2,120)	(2,540)	(2,591)	(2,643)	(2,696)	(2,750)	(2,805)	(2,861)	(2,918)	(2,976)	(3,036)
Depreciation & Amortisation	(20,499)	(21,561)	(21,992)	(22,432)	(22,881)	(23,338)	(23,805)	(24,281)	(24,767)	(25,262)	(25,767)
Interest on Borrowings (Finance Costs)	(1,511)	(2,139)	(2,088)	(2,035)	(1,980)	(1,921)	(1,861)	(1,332)	(1,181)	(1,023)	(857)
NFCH costs	-	(583)	(815)	(839)	(865)	(891)	(917)	(945)	(973)	(1,002)	(1,002)
Service Level Efficiency Dividend	-	-	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500
New Initiatives	-	(181)	(186)	(190)	(195)	(200)	(205)	(210)	(215)	(221)	(226)
Total Operating Expenses	**(160,401)**	**(171,142)**	**(172,804)**	**(177,415)**	**(181,774)**	**(187,550)**	**(192,324)**	**(197,339)**	**(202,960)**	**(208,629)**	**(213,524)**
Net Surplus/(Deficit) from Operations	8,836	4,248	8,055	9,956	12,145	13,043	15,115	17,000	18,406	20,010	22,537
Adjustments											
Net Gain/(Loss) on Disposal of Property Plant & Equipment	450	603	650	597	134	151	156	193	193	193	193
Gain on Sale of Assets Held for Resale	200	200	-	-	-	-	-	-	-	-	-
Total Adjustments	650	803	650	597	134	151	156	193	193	193	193
Operating Surplus/(Deficit)	**9,486**	**5,050**	**8,705**	**10,553**	**12,279**	**13,194**	**15,271**	**17,193**	**18,599**	**20,203**	**22,730**

OPERATING ACTIVITIES REVENUE

RATE REVENUE

Rate revenue will be controlled in future years by the limitations imposed by the Essential Services Commission under rate capping. Current estimates are outlined below:

Table 10 ESC Rate Adjustments Estimates

LTFS	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Rate Revenue	**$102M**	**$106.9M**	**$111.4M**	**$115.9M**	**$120.4M**	**$125.1M**	**$129.8M**	**$134.6M**	**$139.6M**	**$144.6M**

Supplementary Rates are additional rate income raised as a result of growth in new or extended building stock or by change of land use under the planning scheme. Table 11 outlines the predicted growth in supplementary rates. This table is an estimation based on recent trends.

Table 11 Estimated Supplementary Rates

LTFS	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Supplementary Rates	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**	**$1.6M**

FEES AND CHARGES

Fees and Charges assist Council to offset the cost of some service delivery directly with the user rather than funding through rate income. If fees and charges income reflects the movement in Council costs and particularly wages costs this will generally mean that the user will continue to contribute the same proportion of the costs. Hence the movement of average wages has been used to predict these costs.

Statutory Charges are not within Council's control and these generally do not reflect movements in staff costs but at CPI. Some statutory charges are also not indexed e.g. statutory planning and as result ad hoc adjustments to fees occur.

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, fuel prices, clearway and bike path policy. A conservative approach to growth in this revenue source has been applied, recognising that it will continue to grow.

Table 12 Predicted trend in parking revenue

LTFS	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Parking revenue	**$28.6M**	**$29.3M**	**$30.1M**	**$30.8M**	**$31.6M**	**$32.4M**	**$33.2M**	**$34.M**	**$34.9M**	**$35.7M**

Note these amounts include the introduction of sensor technology in Year 1 and 2.

Council's income from parking enforcement, permits and parking meter income is significant at $30.2 million (2015/16 budget) of total income or 18% of total revenue. In 2015/16 there was a loss of general parking spaces in Wellington and Victoria Streets. The LTFS assumes no further significant reduction in parking spaces.

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. This grant has been frozen by the Commonwealth Government and is not subject to CPI adjustment. Any increase will relate to changes in Yarra's population.

INTEREST INCOME

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

OPERATING ACTIVITIES EXPENSES

EMPLOYEE COSTS

Employee benefits include all labour related expenditure including agency staff. Costs here are governed by Council's Enterprise Bargaining Agreement at 4% for the 2016/17 financial year (Year 1 of the LTFS). From years 2-10 an estimate has been provided that is based on predicted average weekly earnings increases of 2.5%. Any restructuring of the workforce will need to be managed within the existing labour allocations with restructuring costs to be absorbed plus an allowance is also made for movement in banding entitlements.

An allowance for staff increases to establish the North Fitzroy Hub commencing in 2016/17 and providing for a full years operation in 2017/18 is included in the LTFS. A general reduction in labour costs of $500,000 is made in 2016/17 and continued through Years 2-10.

No allowance has been made been made for the impact of expected population and dwelling growth of 0.5% in Years 2-10 on the labour budget.

No allowance has been made for further contributions to the Local Government Defined Benefits Scheme (Vision Super).

CONTRACTS

Contract costs generally increase in excess of CPI inflation reflecting the growth in average weekly wages and material costs. The MAV Local Government Cost Index provides some guidance to predicted costs in this area. This index and movement in average weekly wages have been used to predict costs.

During the 10 year period a number of large contracts will be renewed and these include waste, open space management, cleaning and aged care.

An allowance has been made for the cost of Council elections with the 4 year cycle commencing in 2016/17.

MATERIALS AND SERVICES

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

A reduction of $500,000 in materials and services is included in 2016/17 and extended through years 2-10.

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.

Council's contribution to community through its annual and service grants is a large proportion of this cost (Total grants budget in 2015/16 is $1.9M but additional payments for various programs total $3.6 million). This has been indexed by 2.5%

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 decrease by 2% per annum for all years.

DOUBTFUL DEBTS

Doubtful debts are forecast to increase by 2% per annum for all years.

GAIN/LOSS ON SALE OF ASSETS

An amount of $5.7 million has been allowed for gain on sale of assets in 2016/17 and $5.1 million in 2017/18 and 2018/19.

In future years the gain is around $0.1 million - $0.2 million per annum based on sale proceeds of around $0.6 million - $0.7 million per annum for plant and equipment.

CAPITAL WORKS PROGRAM

Table 14 Capital Works Program

Capital cashflow	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**
Renewal	$24M	$25M	$27M	$28M	$29M	$31M	$32M	$32M	$34M	$36M
C/Fwd	$5M	$3M	$3M	$3M	$3M	$3M	$3M	$3M	$3M	$3M
NFCH (new)	$5M									
Open Space Purchase	$5M	$5M	$5M							
	$39M	**$33M**	**$35M**	**$31M**	**$32M**	**$34M**	**$35M**	**$35M**	**$37M**	**$39M**
New / Upgrade / New Initiatives	$2M	$5M	$5M	$5.5M	$5.5M	$4M	$6.5M	$10M	$10M	$11M
Total	**$41M**	**$38M**	**$40M**	**$36.5M**	**$37.5M**	**$37.9M**	**$41.5M**	**$45M**	**$47M**	**$50M**

These numbers also incorporate an update to the definition used for upgrade. Renewal of assets now includes improvements that bring existing assets to today's equivalent capacity or performance capability. For example replacement of a kitchen to today's standard. Upgrade of an asset is restricted to increase in asset capacity. Accordingly the mix of New, Upgrade and Renewal categories in each year has changed since the program was last presented to Council. This change assists to provide a more accurate representation of renewal expenditure which is an important financial indicator.

A review of classification of expenditure between Operating and Capital is also proposed. Currently a large transfer from Capital to Operating occurs as part of the end of year accounting adjustment and review of budget definitions will reduce this variance and better reflect the division of expenditure.

ASSET RENEWAL CAPITAL WORKS

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

- Roads (including drainage) AMP 2004
- Buildings AMP 2013
- Open Space 2008 and under review
- Drainage to be separated and under review

Asset renewal expenditure has been indexed for CPI.

Information Technology requirements are based on the Information Systems Strategy. This Strategy is due for renewal in 2016.

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

In general Council's asset renewal requirements are being met however a renewal gap remains.

NEW AND UPGRADE CAPITAL WORKS

The New and Upgrade Capital Works program has been based on assessments undertaken for the 2015/16 Budget preparation.

APPENDIX 6 BALANCE SHEET ACTIVITIES

LTFS Balance Sheet Year 0 - Year 10

LTFS	(Yr 0)	(Yr 1)	(Yr 2)	(Yr 3)	(Yr 4)	(Yr 5)	(Yr 6)	(Yr 7)	(Yr 8)	(Yr 9)	(Yr 10)
Year	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Current Assets											
Cash and Cash Equivalents	24,320	30,957	32,163	33,763	37,598	41,418	35,857	38,537	39,682	41,027	42,592
Receivables - Rates	3,914	4,079	4,278	4,454	4,635	4,817	5,003	5,192	5,386	5,583	5,785
Receivables - Parking	4,739	4,587	4,470	4,387	4,334	4,309	4,312	4,338	4,388	4,459	4,551
Receivables - Other (excl. GST)	2,870	3,069	3,085	3,174	3,266	3,361	3,459	3,559	3,662	3,768	3,878
Inventory	135	135	135	135	135	135	135	135	135	135	135
Accrued Income	553	553	553	553	553	553	553	553	553	553	553
Prepayments	185	185	185	185	185	185	185	185	185	185	185
Assets held for resale	640	640	640	640	640	640	640	640	640	640	640
Total Current Assets	37,357	44,204	45,509	47,291	51,345	55,419	50,142	53,139	54,631	56,351	58,319
Non Current Assets											
Property Plant and Equipment	1,607,191	1,620,956	1,659,455	1,674,631	1,709,943	1,720,733	1,759,057	1,774,880	1,818,537	1,863,841	1,912,736
Investment in Associates	230	230	230	230	230	230	230	230	230	230	230
Trade and Other Receivables (Long Term)	20	20	20	20	20	20	20	20	20	20	20
Other Financial Assets	5	5	5	5	5	5	5	5	5	5	5
Total Non Current Assets	1,607,446	1,621,211	1,659,710	1,674,886	1,710,198	1,720,988	1,759,312	1,775,135	1,818,792	1,864,096	1,912,991
Total Assets	1,644,803	1,665,415	1,705,218	1,722,177	1,761,544	1,776,407	1,809,455	1,828,274	1,873,423	1,920,447	1,971,311
Current Liabilities											
Payables	9,822	9,920	10,020	10,120	10,221	10,323	10,427	10,531	10,636	10,742	10,850
Trust Funds	4,667	4,900	5,145	5,403	5,673	5,956	6,254	6,567	6,895	7,240	7,602
Accrued Expenses	6,223	6,285	6,348	6,411	6,475	6,540	6,605	6,671	6,738	6,806	6,874
Current Employee Benefits	12,672	13,230	13,613	14,008	14,414	14,832	15,270	15,721	16,185	16,664	17,157
Current Interest Bearing Liabilities	-	1,142	1,195	1,250	1,308	11,369	3,336	3,491	3,653	3,823	2,282
Income in Advance	113	114	115	117	118	119	120	121	122	124	125
Total Current Liabilities	33,497	35,591	36,436	37,309	38,210	49,140	42,012	43,102	44,231	45,399	44,890
Non Current Liabilities											
Non Current Employee benefits	2,014	2,102	2,163	2,226	2,291	2,357	2,427	2,498	2,572	2,648	2,726
Interest Bearing Loans and Borrowings	32,500	43,767	42,573	41,322	40,014	28,644	23,490	19,999	16,346	12,523	10,241
Total Non Current Liabilities	34,514	45,870	44,736	43,548	42,304	31,001	25,917	22,498	18,918	15,171	12,967
Total Liabilities	68,011	81,461	81,172	80,857	80,514	80,142	67,929	65,600	63,149	60,570	57,857
Net Assets	**1,576,792**	**1,583,954**	**1,624,046**	**1,641,320**	**1,681,030**	**1,696,265**	**1,741,526**	**1,762,674**	**1,810,274**	**1,859,877**	**1,913,454**
Equity											
Accumulated Surplus (less GST)	590,535	602,697	624,146	646,836	663,806	679,041	699,203	720,352	742,076	765,162	791,553
General Reserves	79	79	79	79	79	79	79	79	79	79	79
Open Space Reserve	17,091	12,091	7,091	1,675	-	-	-	-	-	-	-
Asset Revaluation Reserve	969,087	969,087	992,730	992,730	1,017,146	1,017,146	1,042,243	1,042,243	1,068,120	1,094,636	1,121,823
Total Equity	**1,576,792**	**1,583,954**	**1,624,046**	**1,641,320**	**1,681,030**	**1,696,265**	**1,741,526**	**1,762,674**	**1,810,275**	**1,859,877**	**1,913,454**

BALANCE SHEET ASSETS

RECEIVEABLES

Receivables (net) are forecast to be $9.5 million in 2016/17 increasing to $11.9 million over the 10 year period.

INVENTORY, ACCRUED INCOME, REPAYMENTS AND ASSETS HELD FOR SALE

The remaining current asset items have been left at forecast 2015/16 levels.

PROPERTY, INFRASTRUCTURE AND PLANT AND EQUIPMENT

Property, infrastructure and plant and equipment is based on forecasts for additions and disposals net of depreciation. An escalation factor of 3.0% has been allowed every two years from 2017/18 for the asset revaluation increment.

INVESTMENTS IN ASSOCIATES, OTHER RECEIVEABLES AND FINANCIAL ASSETS

The remaining non-current asset items have been left at forecast 2015/16 levels.

BALANCE SHEET LIABILITIES

PAYABLES

Payables are forecast to be $16.2 million in 2016/17 increasing to $17.7 million over the 10 year period.

TRUST FUNDS

Trust funds are forecast to be $4.9 million in 2016/17 increasing to $7.6 million over the 10 year period.

EMPLOYEE PROVISIONS (CURRENT AND NON-CURRENT)

Employee provisions are forecast to be $15.3 million in 2016/17 increasing to $19.9 million over the 10 year period.

INTEREST BEARING LOANS AND BORROWINGS

Loans are based on repayment schedules for two loans of $32.5 million and $13.5 million respectively repayable over 10 years.

OPEN SPACE RESERVE

The open space reserve is forecast to be $12.09 million in 2016/17 following a $5.0 million drawdown in that year. The reserve is forecast to be exhausted by 2019/20 with contributions of $5.0 million received and expended in the same year for all future years.