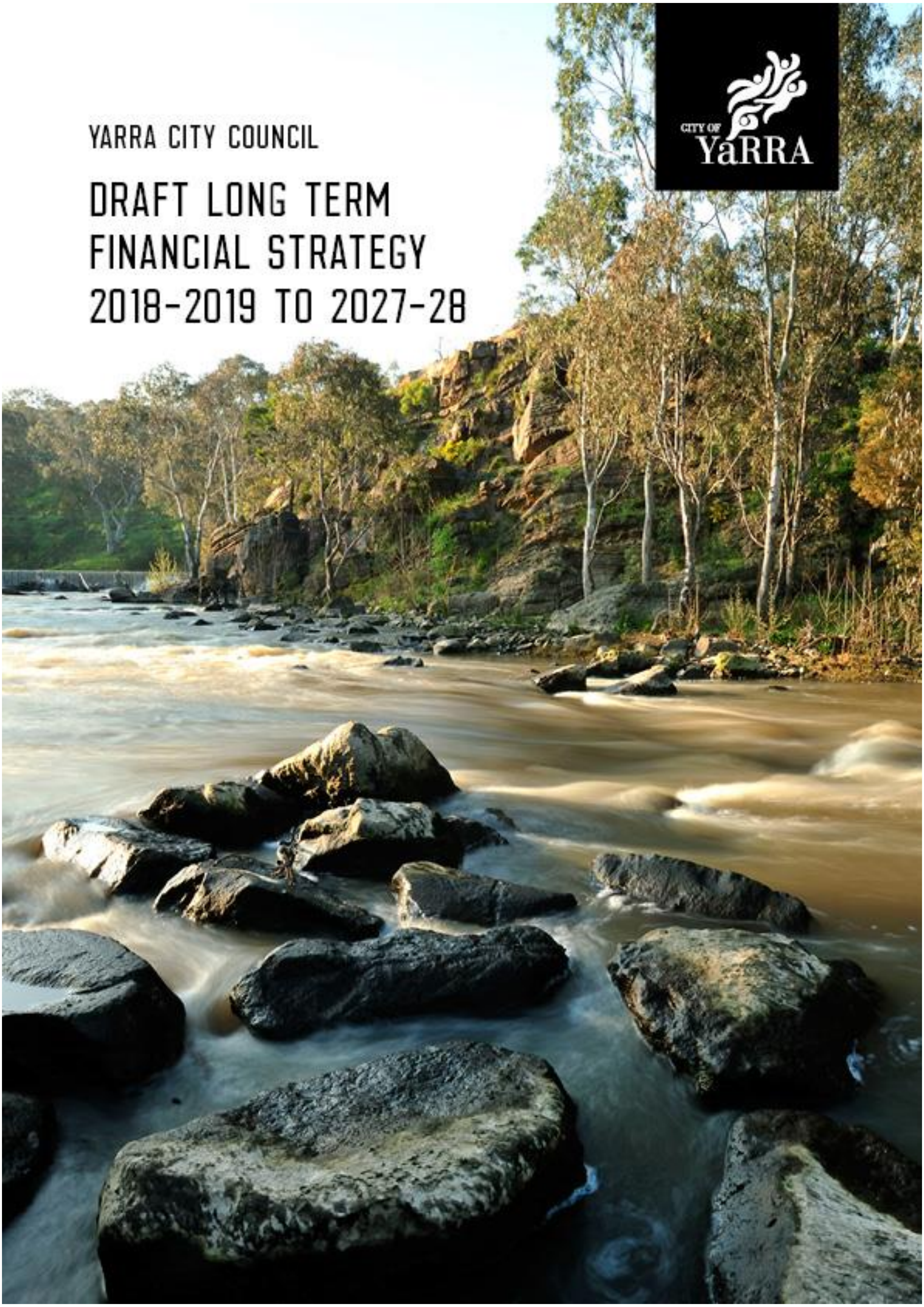
YARRA CITY COUNCIL

DRAFT LONG TERM FINANCIAL STRATEGY 2018-2019 TO 2027-28



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1. INTRODUCTION

This Long Term Financial Strategy (LTFS) has been reviewed and updates the strategy adopted by Council in 2017-18.

Key parameters of the LTFS are detailed below:

- Annual rates increase at the current Essential Services Commission (ESC) rate cap level (2.25%) for the duration of the LTFS; and
- An efficiency target of $500k recurrent expenditure savings are built into each year.

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 operating new initiatives;
- have sufficient cash liquidity to meet operational requirements; 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.

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 1 – Key Financial Indicator Definitions.

Historical assumptions have been reviewed and a number of amendments have been required particularly in the management of liquidity. The changes made reflect the changing operating environment at Yarra. For example, rate capping has significantly reduced Council's total potential revenue over the timespan of the LTFS and Council has less control via rates to respond to financial shocks. Council also has a $32.5m interest only loan due to be repaid in 2020-21; 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.

This LTFS also proposes to establish a set of financial principles that provide guidance for Council's financial strategy. These are detailed in Appendix 2 – Financial Strategy Principles.

4. FINANCIAL POSITION BACKGROUND

Council's current financial position (predicted 30 June 2018) is constrained and cash 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.

In addition to on-going delivery of established services and an extensive program of 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 and an energy performance contract. This loan is an interest only fixed term loan. 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. 2018-19 BUDGET POSITION

The 2018-19 Operating Budget supports many services to the community and also provides for a cash surplus that is used to fund Council's Capital Works Program. The Capital Works Program is critical to Council's ability to maintain, enhance and build assets that meet community needs and underpins 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 3 of this LTFS). The LTFS has been planned to achieve this target mainly by reducing capital spend over the next three years. This will not adversely impact the risk rating associated with Council's Investment Renewal Gap Indicator (refer section 12, Key Indicators).

5.1 CASH HOLDINGS

Council's total cash holding at 30 June 2017 was $34.1 million.

For the 2017/18 budget year in progress, Council is budgeting for a cash holding at 30 June 2018 of $26.2m (assuming 100% capital budget spend).

For the 2018/19 budget year (the first year of the LTFS), the end of year cash position at 30 June 2019 is expected to be $31.8 million (assuming 100% capital budget spend).

5.1.1 WORKING CAPITAL

Council's working capital, as measured by a liquidity ratio of 1.1 expected at the end of the 2017/18 budget year in progress, is low. Whilst this ratio is regarded by the Victorian Auditor-General's Office (VAGO) as being low risk in terms of financial sustainability, it is only just above the upper bound (1.0) of the medium risk category. Furthermore, it limits Council's ability to respond to unforeseen financial shocks and pressures.

Under the LTFS, the liquidity ratio will improve to 1.2 at the end of the 2018/19 budget year (the first year of the LTFS) and to the target ratio of 1.4 by the end of the 2020/21 (year 3 of the LTFS). The target ratio of 1.4 will be comfortably within the VAGO low risk range and provide an improved ability to respond to unforeseen financial shocks and pressures. It also meets the requirement to achieve this ratio from the 2017/18 budget resolution.

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 acquitted on eligible open space capital works projects. The expectation is that the funds received in any given budget year will generally be fully acquitted on the eligible open space capital works projects in the same budget year. Any balances in the reserve will be due to variations in timing between levy receipts and acquittal against qualifying projects. Funds are not expected to accumulate in the reserve.

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 is low. A reduced capital works program over the next three years is planned to assist with improving Council's working capital and liquidity ratio. 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, and in alignment of Council's Property Strategy 2018.

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 2018-19 at 2.25%. This follows rate caps of 2% in 2017-18 and 2.5% in 2016-17.

In the LTFS, is assumed that the rate capping scheme will remain in place for the duration of the LTFS; a prediction has been made of likely future rate caps as detailed in Table 1.

Table 1 - PREDICTED RATE CAPS

	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
Predicted Rate Cap	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

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 already tight financial position. Existing debt is serviced by a $32.5 million interest only loan, due to be repaid in 2020-21 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 2020-21, with the refinanced loan to be on a principal and interest basis, which will ultimately allow for the retirement of this debt. 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 27.3% at the end of the current 2017-18 budget year. It will improve to 25.6% at the end of year 1 (2018-19) and will further improve steadily throughout the life to the LTFS to reduce the risk to Council (for details refer section 12, Key Indicators).

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 which are used to deliver services to the Yarra community) 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 2018-19 (LTFS year 1), the net capital allocation for all motor vehicles is $0.715 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 STRATEGIC MANAGEMENT OF ASSETS AND ENHANCING RETURNS TO THE COMMUNITY

Council recently adopted the 'Property Strategy 2018', which includes a classification and assessment framework to guide Council decision making with regards to property, including where appropriate the disposal of surplus assets. The Strategy has been developed to provide a holistic framework for the management of all property assets and establishes guiding principles for the alignment of Council's property portfolio with its future community and service delivery requirements. It identifies the following platform to drive Council's approach to managing its property portfolio:

1. Strategically manage the property portfolio for the long term in the best interest of the community and service level requirements;

2. Provide Councillors and Council Officers with a framework to guide decisions and actions regarding the management of Council properties, in such a way as to maximise community benefit and support financial sustainability;

3. Provide a consistent and transparent process to enable the evaluation of all Council property according to their usage, suitability and physical characteristics;

4. Formalise assessment and evaluation principles, thus ensuring due consideration of social, cultural, economic, environmental and risk implications;

5. Ensure properties are 'fit for purpose' to deliver services and benefits to the community;

6. Manage properties that are maintained to a safe, compliant, energy efficient and modern-day standard and generally protected from deterioration;

7. Enable new and ongoing partnerships with community organisations to maximise the community benefit arising from facility use;

8. Ensure best practice and compliance with legislative requirements and consistency with existing strategy, process and policy positions.

It is anticipated that improved financial returns can be achieved from a number of buildings and assets by being more strategic in property management and improving the use of existing assets. This will assist Council's overall financial position.

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 during the 2018/19 financial year.

6.8 NEW POPULATION AND DEVELOPMENT

Yarra is experiencing growth in population and households as outlined in Table 2.

Table 2 – 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 no net growth in labour costs to accommodate the increased population and dwellings being serviced. Requirements to fulfil statutory obligations or increased customer demand must be achieved within the existing workforce allocation.

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. No allocation has been made for potential settlement costs related to legal cases, as these are highly uncertain in terms of likely outcome, quantum and timing.

6.11 ASSET RENEWAL AND NEW AND UPGRADE EXPENDITURE

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

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

New assets are being driven by a number of regular programs derived 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 asset and asset upgrade capital expenditure and new initiatives in operations will be very low ($2 million) in 2018-19 and remain relatively low in the short to medium term of this LTFS. Renewal of assets is prioritised to ensure financial sustainability.

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
- Gasworks site including possible Indoor Sports Stadium and relocation of depot activities currently at that site

For each of these initiatives, the 2018-19 budget (LTFS year 1) includes funding to progress with feasibility studies and/or conceptual designs, but there is no provision in the LTFS future years for the entire 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 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.
- Legal case settlement costs.
- 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 3.

Table 3 - FINANCIAL PERFORMANCE ($'000)

	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
Income										
Rates - general	108,937	112,735	116,620	120,544	124,658	128,765	133,066	137,260	141,548	145,932
Statutory fees and fines	29,570	30,070	30,570	31,070	31,570	32,070	32,570	33,070	33,570	34,070
User fees	28,041	28,541	29,041	29,541	30,041	30,541	31,041	31,541	32,041	32,541
Grants - operating	12,337	12,615	12,898	13,189	13,485	13,789	14,099	14,416	14,741	15,072
Grants - capital	1,151	1,201	1,251	1,301	1,351	1,401	1,451	1,501	1,551	1,601
Contributions - monetary	4,369	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Net gain (loss) on disposal of property, infrastructure and plant & equipment	205	205	205	205	205	205	205	205	205	205
Other income	2,921	2,971	3,021	3,071	3,121	3,171	3,221	3,271	3,321	3,371
Total income	**187,531**	**192,638**	**197,907**	**203,220**	**208,731**	**214,242**	**219,953**	**225,564**	**231,276**	**237,093**
Expenses										
Employee costs	82,260	83,905	85,583	87,295	89,041	90,822	92,638	94,491	96,381	98,308
Materials & services	68,526	69,285	70,670	72,084	73,525	74,996	76,496	78,026	79,586	81,178
Depreciation & amortisation	22,432	22,881	23,338	23,838	24,338	24,838	25,338	25,838	26,338	26,838
Bad and doubtful debts	1,980	1,950	1,920	1,890	1,860	1,830	1,800	1,770	1,740	1,710
Borrowing costs	1,964	2,035	1,980	1,876	1,692	1,498	1,296	1,084	862	750
Other expenses	-	-	-	-	-	-	-	-	-	-
Total expenses	177,162	180,056	183,492	186,983	190,456	193,983	197,568	201,209	204,907	208,784
Net surplus (deficit)	**10,369**	**12,582**	**14,415**	**16,238**	**18,275**	**20,258**	**22,385**	**24,356**	**26,370**	**28,308**
Net asset revaluation	-	52,204	-	52,465	-	52,727	-	52,991	-	53,256
Comprehensive result surplus (deficit)	**10,369**	**64,786**	**14,415**	**68,703**	**18,275**	**72,985**	**22,385**	**77,346**	**26,370**	**81,564**

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 4.

Table 4 - RATES ESTIMATES ($'000)

	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
General rates raised	107,422	111,271	115,206	119,229	123,343	127,550	131,852	136,045	140,333	144,718
Bridge Rd special rate	187	187	187	187	187	187	187	187	187	187
Supplementary rates	1,200	1,200	1,200	1,200	1,200	1,100	1,100	1,100	1,100	1,100
Other rate revenue & offsets	128	78	28	(73)	(73)	(73)	(73)	(73)	(73)	(73)
Totals	**108,937**	**112,735**	**116,620**	**120,544**	**124,658**	**128,765**	**133,066**	**137,260**	**141,548**	**145,932**

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 that occur during the relevant financial year.

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.

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 and fuel prices. 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 5.

Table 5 - PARKING REVENUE ESTIMATES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Parking Revenue	29,570	30,070	30,570	31,070	31,570	32,070	32,570	33,070	33,570	34,070

Council's total income from parking enforcement, permits and parking meter income is significant at $29.6 million in 2018/19 (year 1 of LTFS), being 16% of total Council revenue.

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 in previous years and has not been subject to CPI adjustment. This changes from 2018-19. 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 2018-19, 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 that is under negotiation now, with the resulting agreement influencing employee costs in 2018-19 (year 1 of the LTFS). For years 2-10 an estimate has been provided that is based on predicted average weekly earnings increases. No allowance has been made been made in the LTFS for:

- additional labour expenses to related to the impact of expected population and dwelling growth; and
- 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 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.

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 2% p.a. over the duration of the LTFS.

DOUBTFUL DEBTS

Bad and doubtful debts expenses are forecast to decrease slightly across the timeframe of the LTFS, reflecting a more proactive approach to debtor management.

9. CAPITAL WORKS EXPENDITURE

Council's long term capital works plan incorporated into the LTFS is shown in Table 6.

Table 6 – ESTIMATED CAPITAL EXPENDITURE ($'000)

Expenditure Type	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Asset Renewals	23,453	24,523	24,862	24,081	24,826	25,294	27,446	29,551	30,142	31,413
Asset Upgrades	2,017	4,804	4,580	8,195	7,143	2,355	3,240	2,440	2,700	1,700
New Assets	230	1,340	3,550	1,725	2,712	7,725	5,395	4,812	4,697	4,889
Total	**25,700**	**30,667**	**32,992**	**34,001**	**34,681**	**35,374**	**36,081**	**36,803**	**37,539**	**38,002**

Note that 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.

Ongoing review of the classification of expenditure between operating and capital for both budgeting and actual expenditure recording is being undertaken. Typically a significant transfer of expenditure 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 in the first instance.

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 2018-19 budget preparation.

10. FINANCIAL POSITION

The LTFS statement of Council's financial position is presented in Table 7.

Table 7 - FINANCIAL POSITION ($'000)

	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
Assets										
Current assets										
Cash and cash equivalents	31,818	34,938	37,875	39,356	42,413	46,971	53,149	60,766	69,842	80,584
Trade and other receivables	16,366	17,047	17,821	18,690	19,655	20,717	21,876	23,132	24,486	25,939
Other financial assets	0	0	0	0	0	0	0	0	0	0
Inventories	130	130	130	130	130	130	130	130	130	130
Non-current assets classified as held for sale	696	696	696	696	696	696	696	696	696	696
Other assets	0	0	0	0	0	0	0	0	0	0
Total current assets	**49,010**	**52,811**	**56,522**	**58,872**	**62,895**	**68,514**	**75,851**	**84,724**	**95,154**	**107,348**
Non-current assets										
Trade and other receivables	255	255	255	255	255	255	255	255	255	255
Property, infrastructure and plant & equipment	1,751,982	1,811,772	1,821,226	1,883,653	1,893,796	1,956,859	1,967,403	2,031,159	2,042,160	2,106,380
Intangible assets	0	0	0	0	0	0	0	0	0	0
Total non-current assets	**1,752,237**	**1,812,027**	**1,821,481**	**1,883,908**	**1,894,051**	**1,957,114**	**1,967,658**	**2,031,414**	**2,042,415**	**2,106,635**
Total Assets	**1,801,247**	**1,864,838**	**1,878,003**	**1,942,781**	**1,956,946**	**2,025,628**	**2,043,508**	**2,116,138**	**2,137,569**	**2,213,983**
Liabilities										
Current liabilities										
Trade and other payables	17,534	17,534	17,534	17,534	17,534	17,534	17,534	17,534	17,534	17,534
Trust funds and deposits	6,195	6,195	6,195	6,195	6,195	6,195	6,195	6,195	6,195	6,195
Provisions	15,215	15,215	15,215	15,215	15,215	15,215	15,215	15,215	15,215	15,215
Interest bearing loans and borrowings	1,195	1,250	1,308	4,110	4,303	4,505	4,717	4,939	3,453	3,755
Total current liabilities	**40,139**	**40,194**	**40,252**	**43,054**	**43,247**	**43,449**	**43,661**	**43,883**	**42,397**	**42,699**
Non-current liabilities										
Provisions	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416	1,416
Other liabilities	585	585	585	585	585	585	585	585	585	585
Interest bearing loans and borrowings	42,572	41,322	40,014	33,287	28,984	24,479	19,762	14,823	11,370	5,918
Total non-current	**44,573**	**43,323**	**42,015**	**35,288**	**30,985**	**26,480**	**21,763**	**16,824**	**13,371**	**7,919**
Total liabilities	**84,712**	**83,517**	**82,267**	**78,342**	**74,232**	**69,929**	**65,424**	**60,707**	**55,768**	**50,618**
Net assets	**1,716,535**	**1,781,321**	**1,795,736**	**1,864,439**	**1,882,714**	**1,955,699**	**1,978,084**	**2,055,431**	**2,081,801**	**2,163,365**
Equity										
Accumulated surplus	610,383	622,965	637,380	653,618	671,893	692,151	714,536	738,892	765,261	793,570
Reserves	1,106,152	1,158,356	1,158,356	1,210,821	1,210,821	1,263,548	1,263,548	1,316,539	1,316,539	1,369,795
Total equity	**1,716,535**	**1,781,321**	**1,795,736**	**1,864,439**	**1,882,714**	**1,955,699**	**1,978,084**	**2,055,431**	**2,081,801**	**2,163,365**

ASSETS

RECEIVABLES

Current receivables (net) are forecast to be $16.4 million at the end of 2018-19 (LTFS year 1). This is anticipated to increase by 5% on average each year across the LTFS.

INVENTORIES AND ASSETS HELD FOR SALE

The remaining current asset items have been left at budgeted 2017/18 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 0.5% has been allowed every two years from 2018-19 for the asset revaluation increment.

OTHER RECEIVEABLES

Non-current receivables have been left at budgeted 2017/18 levels.

LIABILITIES

PAYABLES

Payables are forecast to be $17.5 million at the end of 2018-19 (LTFS year 1) and remain stable across the LTFS.

TRUST FUNDS

Trust funds are forecast to be $6.2 million at end 2018-19 and remain stable across the LTFS.

EMPLOYEE PROVISIONS (CURRENT AND NON-CURRENT)

Employee provisions are forecast to be $16.6 million at end 2018-19 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 loan will be refinanced in 2020-21 on a principal and interest basis, and the $13.5 million loan will be fully redeemed by the end of the LTFS.

OPEN SPACE RESERVE

The open space reserve is forecast to be fully acquitted during the 2018-19 financial year. This will continue through the 10-year period.

11. CASH FLOW

The LTFS statement of Council's cash flow is presented in Table 8.

Table 8 - CASH FLOWS ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Cash flows from operating activities										
Receipts										
Rates	107,847	111,608	115,454	119,338	123,411	127,477	131,735	135,887	140,132	144,473
Statutory fees & fines	28,092	28,567	29,042	29,517	29,992	30,467	30,942	31,417	31,892	32,367
User fees	28,041	28,541	29,041	29,541	30,041	30,541	31,041	31,541	32,041	32,541
Grants operating	12,337	12,615	12,898	13,189	13,485	13,789	14,099	14,416	14,741	15,072
Grants capital	1,151	1,201	1,251	1,301	1,351	1,401	1,451	1,501	1,551	1,601
Contributions	4,369	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Other receipts	2,921	2,971	3,021	3,071	3,121	3,171	3,221	3,271	3,321	3,371
Total receipts	**184,758**	**189,802**	**195,007**	**200,257**	**205,701**	**211,145**	**216,789**	**222,333**	**227,977**	**233,725**
Payments										
Payments to employees	(82,260)	(83,905)	(85,583)	(87,295)	(89,041)	(90,822)	(92,638)	(94,491)	(96,381)	(98,308)
Payments for materials & services	(68,526)	(69,285)	(70,670)	(72,084)	(73,525)	(74,996)	(76,496)	(78,026)	(79,586)	(81,178)
Other payments	-	-	-	-	-	-	-	-	-	-
Total payments	**(150,786)**	**(153,190)**	**(156,254)**	**(159,379)**	**(162,566)**	**(165,817)**	**(169,134)**	**(172,517)**	**(175,967)**	**(179,486)**
Net cash provided by (used in) operating activities	**33,972**	**36,612**	**38,753**	**40,878**	**43,135**	**45,328**	**47,655**	**49,816**	**52,011**	**54,239**
Cash flows from investing activities										
Payments for property, infrastructure and plant & equipment	(25,700)	(30,667)	(32,992)	(34,001)	(34,681)	(35,374)	(36,081)	(36,803)	(37,539)	(38,002)
Proceeds from sale of property, infrastructure and plant & equipment	405	405	405	405	405	405	405	405	405	405
Net cash provided by (used in) investing activities	**(25,295)**	**(30,262)**	**(32,587)**	**(33,596)**	**(34,276)**	**(34,969)**	**(35,676)**	**(36,398)**	**(37,134)**	**(37,597)**
Cash flows from financing activities										
Finance costs	(1,964)	(2,035)	(1,980)	(1,876)	(1,692)	(1,498)	(1,296)	(1,084)	(862)	(750)
Proceeds from borrowings	-	-	32,500	-	-	-	-	-	-	-
Repayment of borrowings	(1,142)	(1,195)	(33,750)	(3,925)	(4,110)	(4,303)	(4,505)	(4,717)	(4,939)	(5,150)
Net cash provided by (used in) financing activities	(3,106)	(3,230)	(3,230)	(5,801)	(5,802)	(5,801)	(5,801)	(5,801)	(5,801)	(5,900)
Net increase (decrease) in cash and cash equivalents	**5,571**	**3,120**	**2,936**	**1,481**	**3,057**	**4,558**	**6,178**	**7,617**	**9,076**	**10,742**
Cash and cash equivalents at the beginning of financial year	26,247	31,818	34,938	37,875	39,356	42,413	46,971	53,149	60,766	69,842
Cash and cash equivalents at end of financial year	**31,818**	**34,938**	**37,875**	**39,356**	**42,413**	**46,971**	**53,149**	**60,766**	**69,842**	**80,584**

12.KEY INDICATORS

Key financial indicators for the duration of the LTFS are shown in Table 9, with definitions for the indicators included in Appendix 1. Graphical representations of these indicators are shown in the following sub-section. The table also contains suggested long term target ratios for Yarra; the targets have been developed considering the Victorian Auditor General's financial sustainability risk guidance.

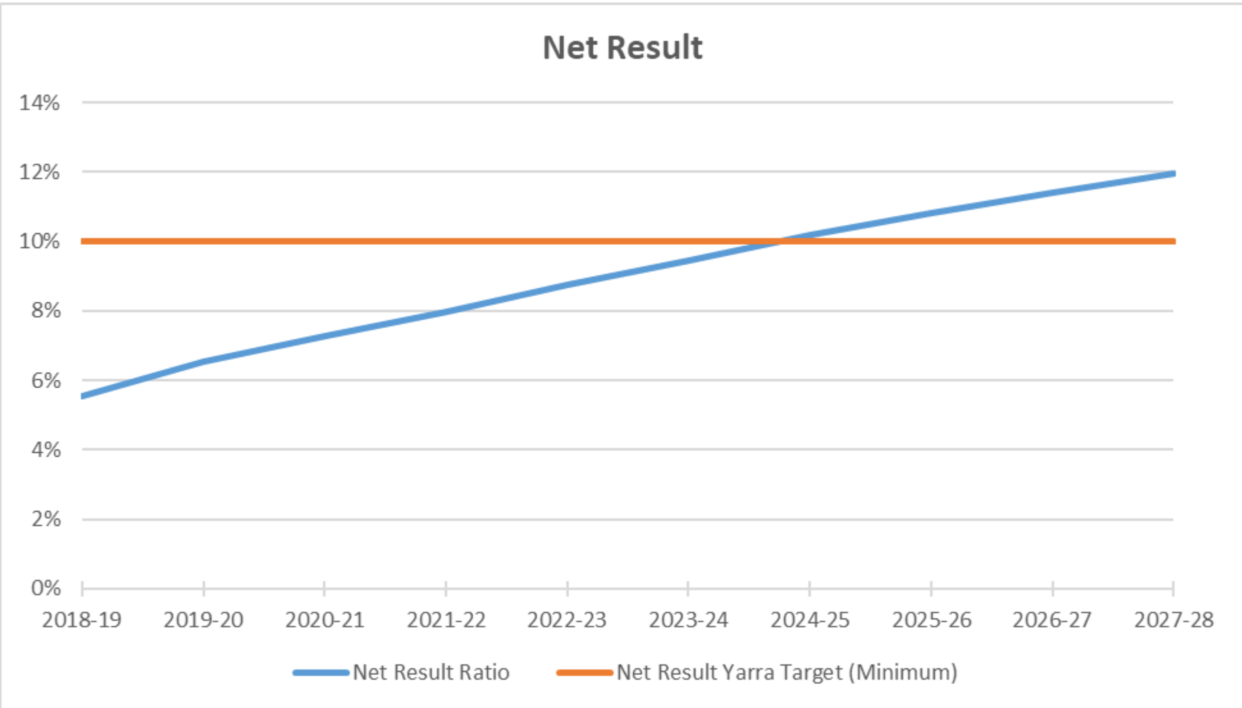
Table 9 - Projected Key Financial Indicators

	Yarra Target	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
Net Result	>10%	6%	7%	7%	8%	9%	9%	10%	11%	11%	12%
Liquidity	>1.4	1.22	1.31	1.40	1.37	1.45	1.58	1.74	1.93	2.24	2.51
Unrestricted Cash	>75%	62%	70%	77%	75%	82%	92%	106%	123%	148%	173%
Debt Commitment	<5%	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%
Indebtedness	<30%	26%	24%	23%	19%	16%	13%	11%	8%	6%	4%
Self Financing	>25%	132%	119%	117%	120%	124%	128%	132%	135%	139%	143%
Renewal Gap	>1.1	1.1	1.3	1.3	1.4	1.3	1.1	1.2	1.2	1.2	1.2
Capital Replacement	>1.5	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4

While debt levels are relatively high as a percentage of general rates, this LTFS provides Council with the capacity to fund its day to day operations.

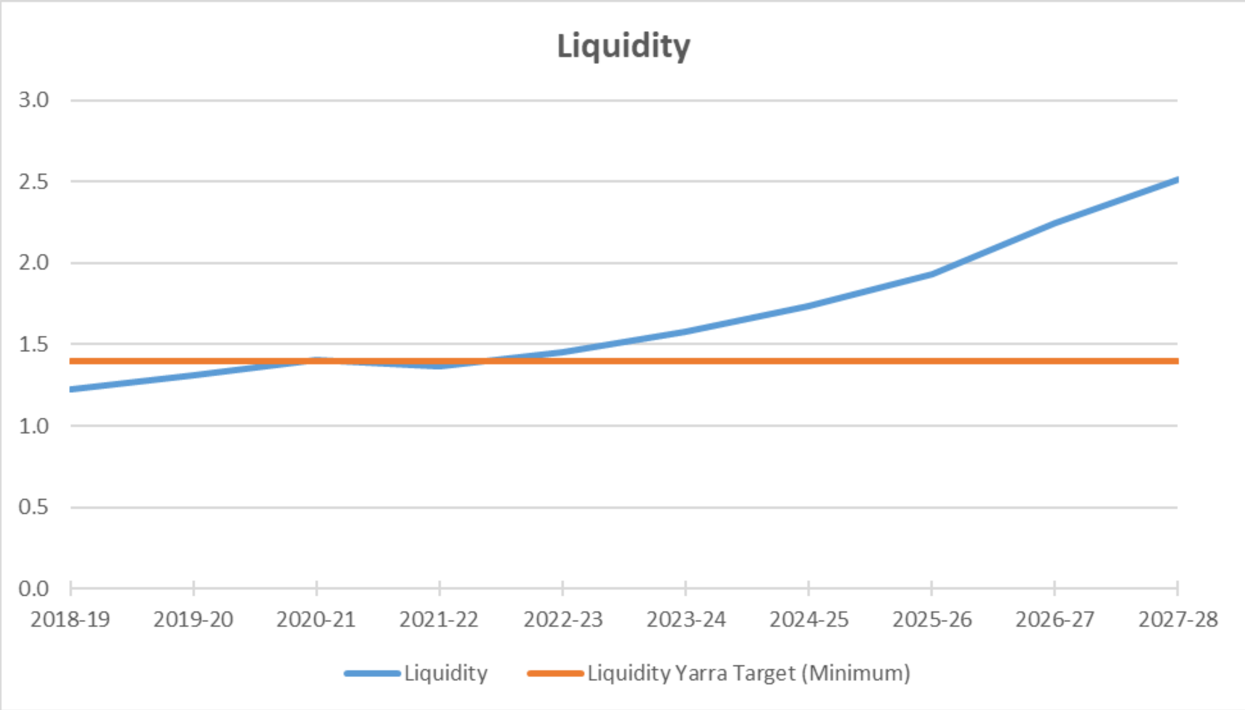
Further improvement to the Council's financial position is required to attain the long-term targets for financial sustainability.

GRAPHS



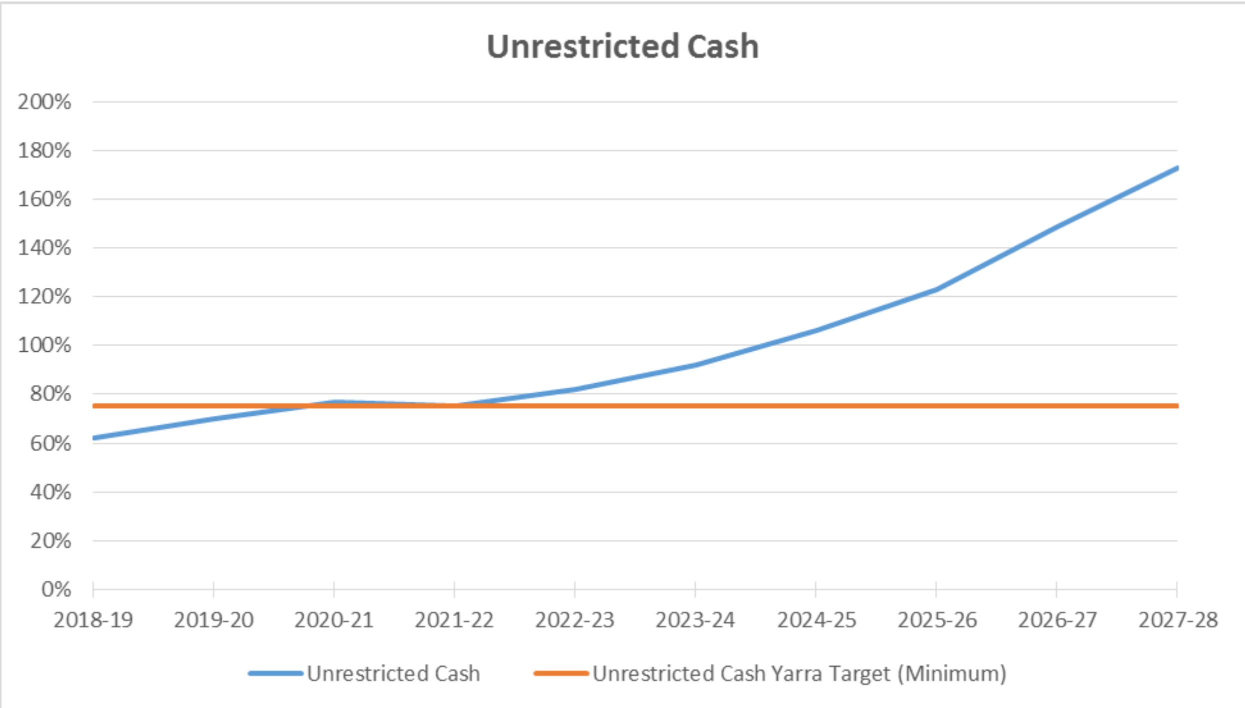
Graph 1 - Net Result

Net Result is an indicator of the sustainable operating result required to enable Council to continue to provide core services and meet its objectives. Ideally the blue line should exceed the target orange line.



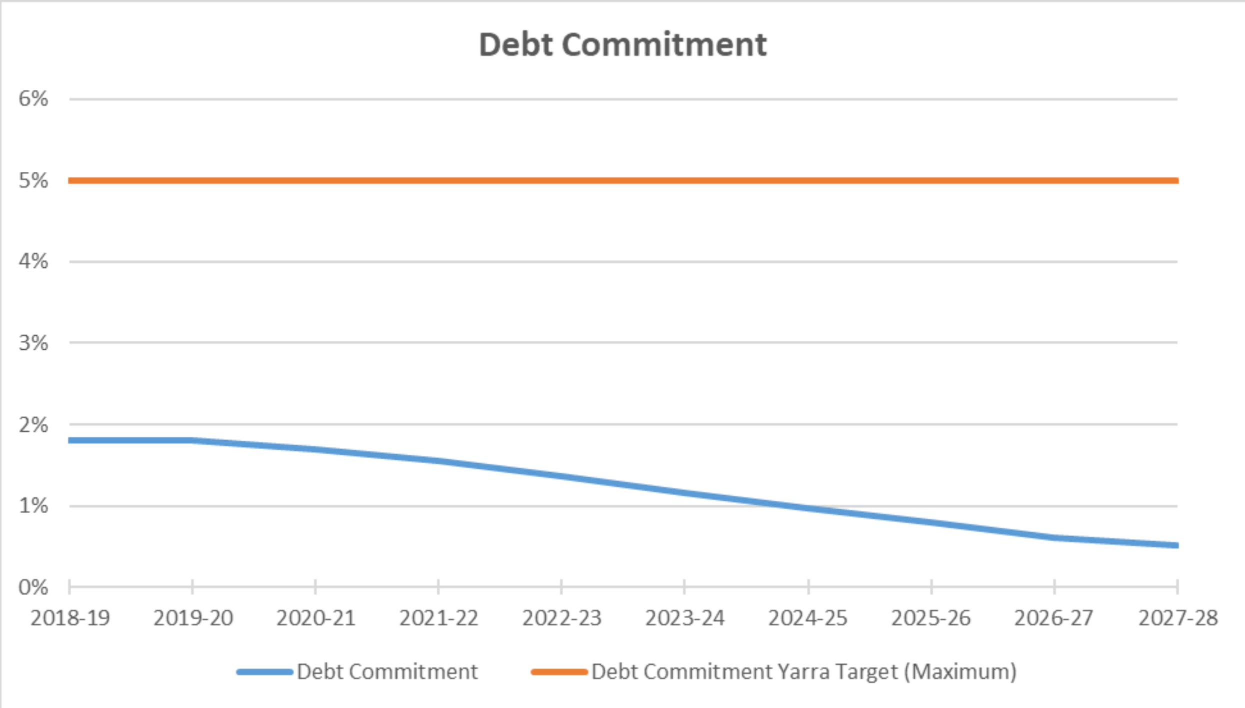
Graph 2 - Liquidity

Liquidity assesses Council's ability to meet current commitments. Ideally the blue line should exceed the target orange line.



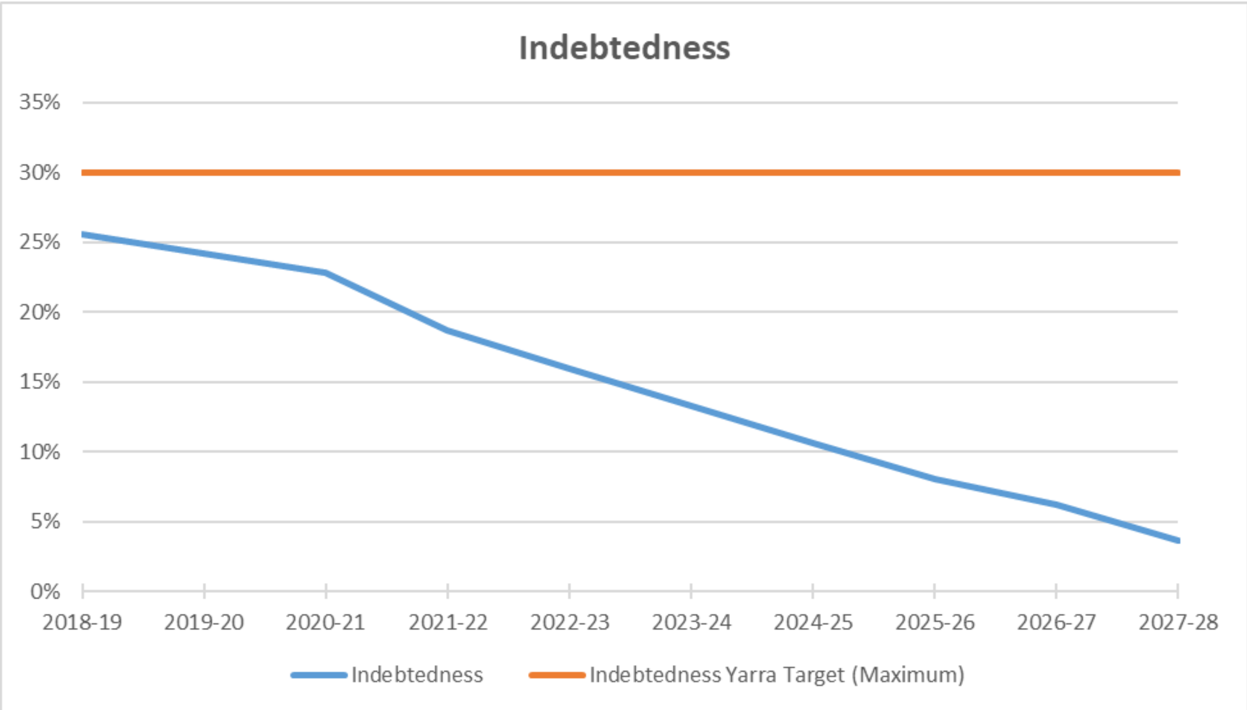
Graph 3 - Unrestricted Cash

Unrestricted Cash assesses Council's freely available cash level. Ideally the blue line should exceed the orange line.



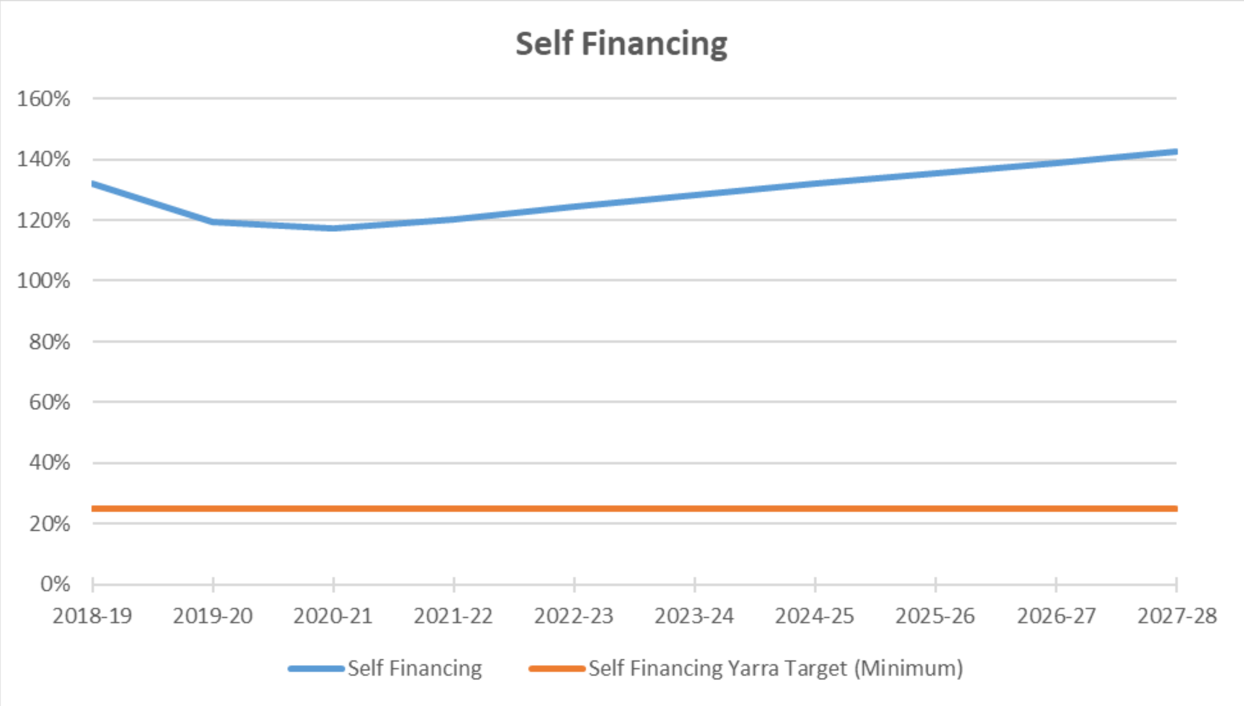
Graph 4 - Debt Commitment

Debt Commitment identifies Council's debt redemption strategy. Ideally the blue line should **not** exceed the target orange line.



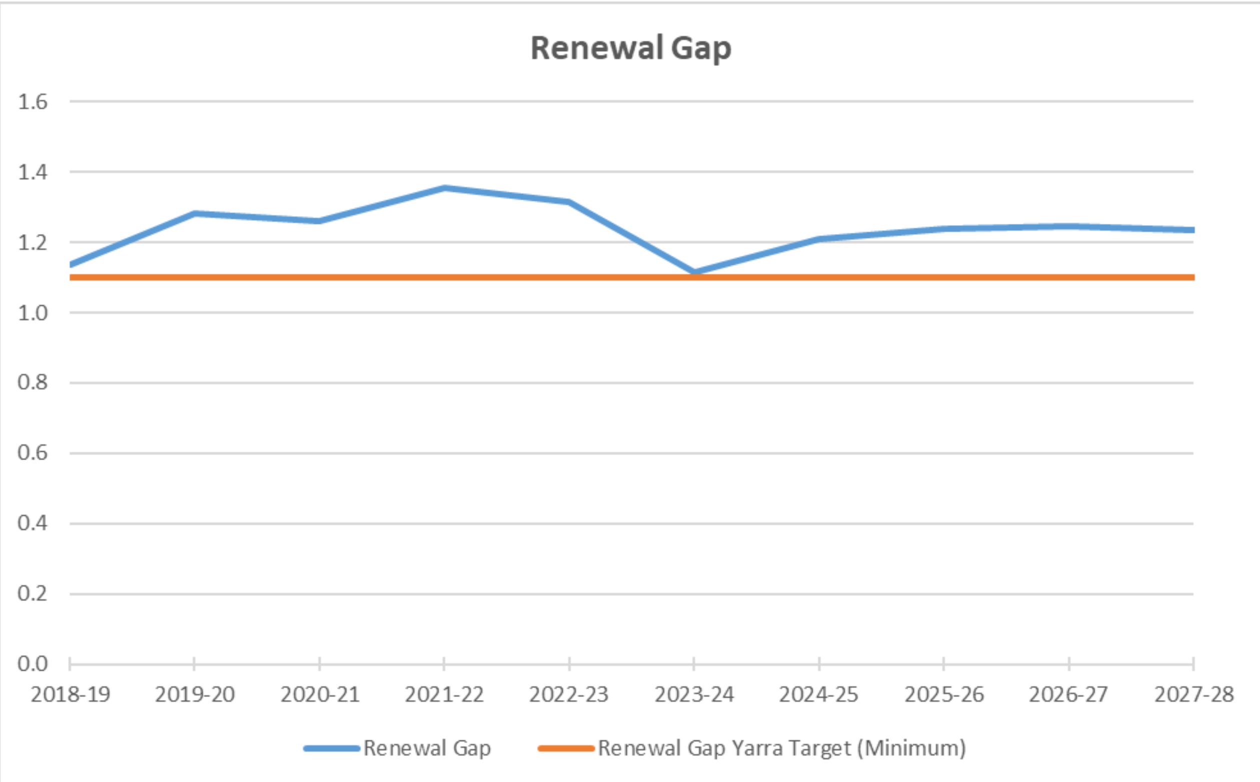
Graph 5 - Indebtedness

Indebtedness identifies reliance on debt. Ideally the blue line should **not** exceed the target orange line.



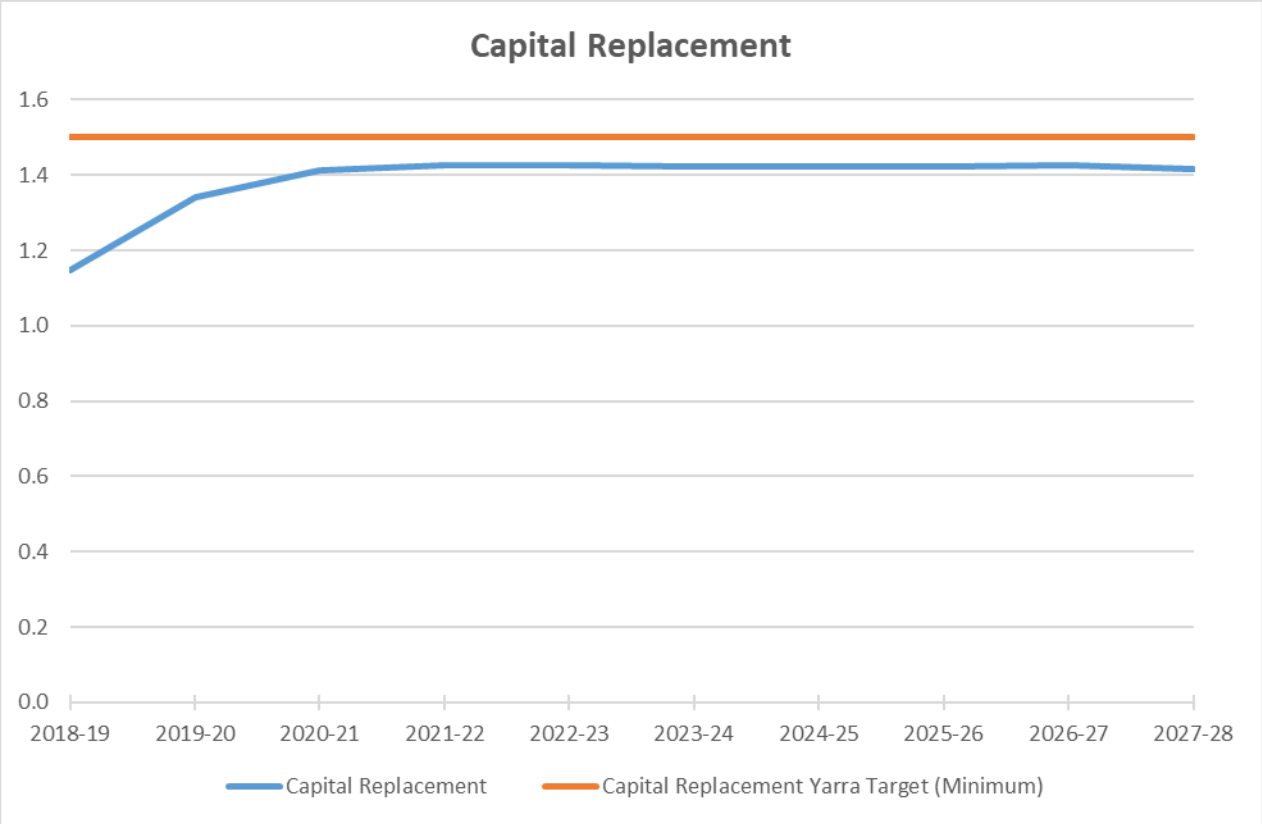
Graph 6 - Self Financing

Self Financing identifies reliance on debt to fund capital programs. Ideally the blue line should exceed the target orange line.



Graph 7 - Renewal Gap

Renewal Gap assesses Council's ability to renew assets as required. Ideally the blue line should exceed the target orange line.



Graph 8 - Capital Replacement

Capital Replacement measures whether the replacement of assets is consistent with their consumption. Ideally the blue line should exceed the target orange line. The target orange line in this graph is VAGO's indicator for low risk. In relation to this indicator, VAGO's calculation includes new capital works spend in addition to renewal and upgrade expenditure. For an established City like Yarra, significant new works year on year are not required, and therefore achieving a ratio of greater than 1.0 is still a reasonable outcome for this indicator. If Council were to build a significant new asset in the future again (eg like Bargoonga Nganjin), it will ensure the renewal of that asset is accommodated in its renewal program.

APPENDIX 1 – KEY FINANCIAL INDICATORS DEFINITIONS

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. Adjusted underlying surplus or (deficit) Adjusted underlying revenue A positive result indicates a surplus. VAGO High Risk = less than 0% Medium Risk = 0%-5% Low Risk = Greater than 5%	More than 10%
Liquidity	To assess Council's ability to meet current commitments. Current assets Current liabilities A ratio higher than 1.0 means that there is more cash and liquid assets than short term liabilities VAGO High Risk = less than 0.75 Medium Risk = 0.75 – 1.0 Low Risk = greater than 1.0	Greater than 1.4
Unrestricted Cash	To assess Council's freely available cash level. Unrestricted cash Current liabilities Target is based on the Local Government Performance and Reporting Framework Indicators	Greater than 75%
Debt Commitment	To identify Council's debt redemption strategy. Debt servicing and redemption costs Rate Revenue Debt redemption includes loan and finance lease principal and interest as a percentage of rate revenue Target is based on the Local Government Performance and Reporting Framework Indicators	Less than 5%

Indicator	Description	Long Term Target Range for Yarra
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% Low Risk = less than 40%	Less than 30%
Self-Financing	Indicates reliance on debt to fund capital programs. <u>Net operating cash flows</u> Underlying revenue VAGO High Risk Less than 10% Medium Risk 10% - 20% Low Risk = Greater than 20%	Greater than 25%
Investment Renewal Gap	To assess Council's ability to renew assets as required. <u>Asset renewal and upgrade expenditure</u> Depreciation A ratio greater than 1.0 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 0.5 Medium Risk = 0.5 – 1.0 Low Risk = greater than 1.0	Greater than 1.0
Capital Replacement	Measures if the replacement of assets is consistent with their consumption. <u>All capital expenditure</u> Depreciation VAGO High Risk Less than 1.0 Medium Risk 1.0 – 1.5 Low Risk Greater than 1.5	Greater than 1.50

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

APPENDIX 2 – 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.
- Achieve a Liquidity Ratio of +140% by Year 3 of the LTFS (2020/21) to ensure the maintenance of the required level of cash to meet operational requirements as well as build cash reserves for contingencies that may arise. Strengthening this position over the years of the LTFS is also a future goal.
- 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 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.