South Gippsland Shire Council
Annual Budget – 2003 / 2004

Council Meeting 25 June 2003

South Gippsland
Shire Council

Contents

1. Executive Summary

Under the *Local Government Act 1989* ("the Act"), Council is required to prepare and adopt an annual budget. The budget is required to be adopted by 31 August each year.

A high level Long Term Financial Plan for the years 2003/2004 to 2012/2013 has been developed to assist Council in adopting a budget within a longer term prudent financial framework. The key objective of the Financial Plan is financial sustainability in the medium to long term, whilst still achieving the Council's corporate objectives as specified in the Council Plan.

The 2003/2004 budget presented in this report has been developed through a rigorous process of consultation and review with Council and Council officers. It is Council's opinion that the budget is financially responsible and substantially achieves all of the Business Plan (Annual Plan) objectives and strategies included in the 2003–2005 Corporate & Community Plan (Council Plan). It is also forward looking in that it fits within a longer term framework, which seeks to achieve financial sustainability in the long term.

The 2003/2004 Operating Budget forecasts an operating deficit of $0.06 million after raising rates and charges of $16.31 million including $58,000 from supplementary rates. The operating position is projected to result in a deficit for 2002/2003 of $0.41 million. Excluding capital funding, an operating deficit of $3.49 million is forecast for 2003/2004.

The Shire needs to improve financial position in terms of liquidity and debt liability. Council over a number of years has recorded a series of operating deficits and as a consequence has not generated sufficient cash from operating activities to adequately contribute to financing of the capital works program. In recent years Council has placed considerable reliance on three main sources of funds -

- Rates and charges increases
- Borrowing's, and
- Asset sales

The amounts obtainable from some of these sources are now limited.

To address this situation, Council in April 2003 adopted a long term financial strategy, which focuses on improving our finances over the forthcoming years, and this is reflected in the long term financial plan.

Council operations are expected to be significantly impacted by unfunded superannuation costs, insurance costs, contribution to sewerage schemes and reductions in government funding and it will be necessary to achieve future revenue growth whilst containing costs in order to achieve a breakeven operating position by 2007/2008. The long term financial plan shows that a surplus result will not be achieved until 2009/2010.

Council in this budget has taken into consideration the magnitude of the total rates and charges increases in the 2002/2003 financial year, and has determined that rates and charges for the 2003/2004 financial year rise by no more than the forecast CPI for the forthcoming financial year including an additional 3% to be specifically allocated to reduce long term debt. General rates and charges will therefore increase by 6.0% in 2003/2004. This additional rate revenue will be quarantined in future budgets to service long term debt up until 2007/2008.

In order to achieve a long term sustainable financial position whilst maintaining service levels and a robust capital expenditure program, general rates in the forthcoming years will need to increase by a minimum margin of 3.0% over and above the projected CPI movements. The budgets for 2004/2005 and 2005/2006 will be particularly challenging and rate rises in excess of the 3.0% margin may have to be considered. This is due to the fact that the Council will be receiving significantly less grant funding over those two years.

Ongoing operational savings also need to be achieved. Council and the Chief Executive Officer (CEO) will review existing service levels with the objective of identifying savings in non core services and overheads in the first half of the 2003/2004 financial year. The financial plan will be updated with any identified and sustainable savings. This in turn may facilitate the shire reaching a breakeven position earlier than what is currently modeled and possibly reduce the rate burden in forthcoming years.

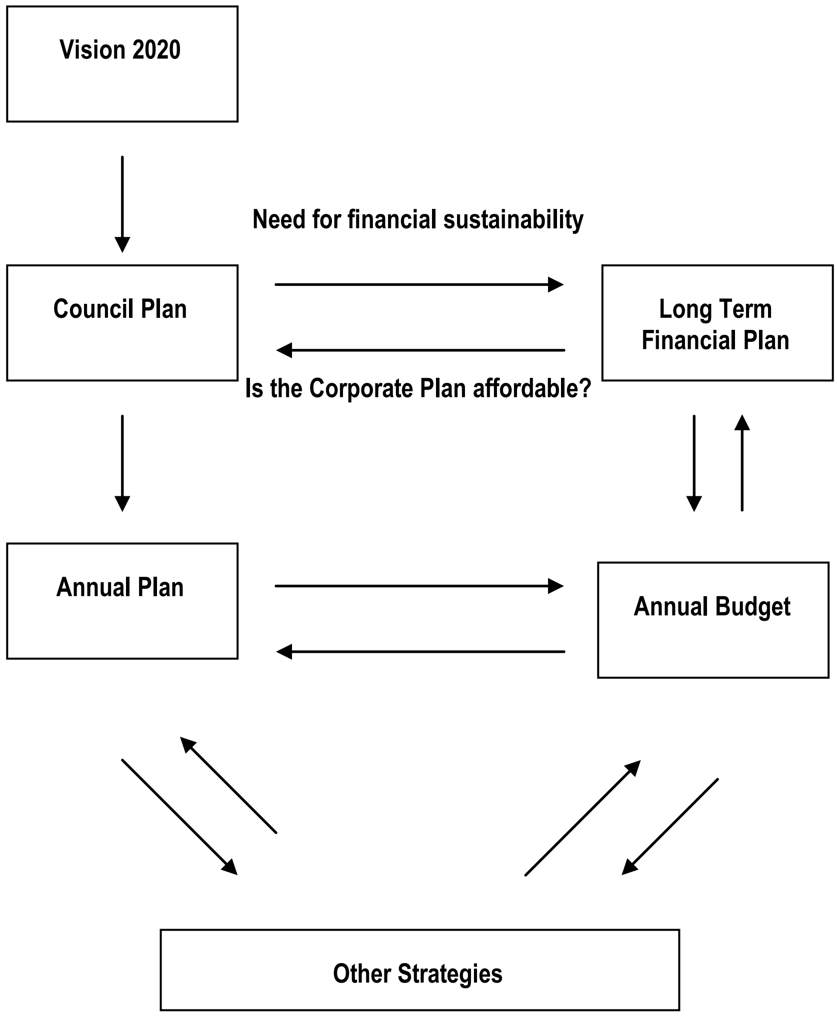
The total capital expenditure program will be $10.60 million. Of this amount $1.89 million relates to projects, which will be carried forward from the 2002/2003 year. The carried forward component is fully funded from the 2002/2003 year. Of the $10.60 million of capital funding required, $1.41 million is funded from Council operations. $7.69 million is funded from external grants & contributions ($3.43 million), proceeds from sale of assets ($2.06 million) and borrowing's ($2.20 million), and the balance (including the carried forward component) of $1.5 million from cash and investments and working capital. The capital works program is intentionally large due to the expenditure related to projects carried forward from 2002/2003 and also because of the magnitude of the leisure centre project. A capital expenditure program of this size cannot be sustained beyond 2003/2004.

It is acknowledged that the Council still needs to fund new community and organisational initiatives if it is to remain innovative and cognisant of the community’s needs. In this year’s budget a number of new initiatives costing in excess of $1.7 million have been proposed.

2. Budget overview

2.1 Strategic planning framework

The Annual Budget has been developed within an overall planning framework, which guides the Council in identifying community needs and aspirations over the long term (Vision 2020) and converting these into medium (Council Plan) and short term (Annual Plan) goals and objectives. The Long Term Financial Plan summarises the financial impacts of the goals and objectives and determines the sustainability of these plans. The Annual Budget is then framed within the Long Term Financial Plan. The diagram below depicts the strategic planning framework of Council.



The timing of each component of the planning framework is critical to the successful achievement of the planned outcomes. The Council Plan (also referred to as the 'Corporate and Community Plan') and Long Term Financial Plan would usually be completed by February each year to ensure that there is sufficient time for officers to develop their Annual Plans (also referred to as 'Business Plans') in draft form prior to the commencement of the Annual Budget process in March.

In previous years, Council's long term financial plan was derived at a very high level from the annual Rate determination statement. Rate determination budgets were satisfactory in facilitating the rate setting process but it did not adequately address or focus on financial position management when setting budgets.

The 2003/2004 budget has not been prepared on, nor does it report on a 'rate determination' basis, but rather applies modern financial management techniques to the budgeting process. Rate setting is obviously still an important function of councils but this is now considered in the context of cash flows, financial performance and the financial position of Council.

The long term financial plan that focuses on-

- Budget of financial performance (operating statement)
- Budget of cash position (cash flow statement)
- Budget of financial position (balance sheet) and
- Budget of capital works

was actually prepared this year at a detail level at the end of the annual 2003/2004 budget process. The 2003/2004 budget is a transitional budget, in that it has been prepared using Best Practice Budgeting Guidelines and then used as the base line to develop the long term financial plan.

The long term financial plan is very much a ‘stage one’ financial plan. Due to time constraints the assumptions used have been applied on a very broad basis and will be subject to detailed review and refinement in the following six months.

In future budgets (2004/2005 and beyond), having the long term financial plan reviewed and completed by February will allow time for Annual plans to be prepared in draft form prior to the annual budget process. This will allow time for targets to be established during the Long Term Financial Planning process, which in turn guides the preparation of the Annual Budget.

2.2 Annual plan outcomes

The Annual Plan sets out the key activities that the Council will undertake during the year to achieve the strategic objectives set out in the Council Plan, which in turn achieves the Council’s vision. The Annual Budget converts these activities into financial terms to ensure that there are sufficient resources for their achievement. The strategic objectives as set out in the Council Plan and the key strategic activities to be undertaken in each operational area during the 2003/2004 year are set out below.

Council Plan Strategic Objective	Key Strategic Activities	Reference
<u>Leadership, Communication & Consultation</u> ***'Provide strong leadership and make responsible Decisions'***	• **Continue working with our community to maintain and support a network of community groups and volunteers** • **Be a strong advocate on behalf of our community on significant issues** • **Continually consult, communicate and evaluate our future direction with our community** • **Develop and optimise networks and relationships with local, regional, state and federal bodies.** • **Manage the activities of the organization ensuring all risks are controlled to the standards required by law and/or organizational guidelines and policies.** • **Reinforce Council values and codes of good governance.**	**1.1** **1.2** **1.3** **1.4** **1.5** **1.6**
<u>Services to our community</u> ***'Provide a range of flexible, responsive and accessible service's***	• **Develop partnerships with community agencies, service providers and governments** • **Support social, cultural, recreational, health and educational programs** • **Facilitate programs that increase access, build skills and assist young people to be active members of our community** • **Facilitate services that meet the needs of our ageing population** • **Facilitate responsive statutory planning and building services**	**2.1** **2.2** **2.3** **2.4** **2.5**
<u>Infrastructure</u> ***'Develop sustainable infrastructure that meets our long term needs'***	• **Implement the capital works programs for infrastructure including parks, roads, bridges, buildings and waste management facilities** • **Lobby for the provision of improved waste water, telecommunications, water, gas, transport and other utilities** • **Continually maintain and improve our local road network and other infrastructure**	**3.1** **3.2** **3.3**

<u>Economic Development</u> ***'Encourage investment, development and services that enable planned and sustained growth of the shire'***	• **Pro- actively pursue business and investment prospects to generate sustainable progress** • **Promote tourism by capitalising on the Shire's cultural, heritage and natural assets**	**4.1** **4.2**
<u>Environment</u> ***'Protect the unique and environmental heritage of South Gippsland through the use of responsible practices and initiatives'***	• **Support and implement responsible environmental practices and initiatives, including the pursuit of opportunities for renewable energies** • **Develop policies and programs that protect cultural, heritage and indigenous assets** • **Develop Coastal Strategy Plan**	**5.1** **5.2** **5.3**
<u>Business Excellence</u> ***'Focusing on our staff, processes, systems and services continuously improve the way we work'***	• **Maximise the effective use of facts, data and knowledge to lead to improved decisions throughout the organisation** • **Maximise the potential of our people** • **Improve Council's systems and processes**	**6.1** **6.2** **6.3**

2.3 Basis of Budget preparation

Under the *Local Government Act 1989* ("the Act"), Council is required to prepare and adopt an annual budget. The budget is required to include certain information about the rates and charges that Council intends to levy as well as a range of other financial information required by the *Local Government Regulations, 2001* ("the Regulations").

The first step in the budget process is for Officers to prepare the annual budget in accordance with the Act and submit the "proposed" budget to Council for approval "in principle". Council is then required to give "public notice" that it intends to "adopt" the budget. It must give 14 days notice of its intention to adopt the proposed budget and make the budget available for inspection at its offices. A person has a right to make a submission on any proposal contained in the budget and any submission must be considered before the adoption of the budget by Council. The final step is for Council to adopt the budget after receiving and considering any submissions from interested parties. The budget is required to be adopted by 31 August each year.

The 2003/2004 budget, which is included in this report, is for the year 1 July 2003 to 30 June 2004 and is prepared in accordance with the Act and Regulations. The budget includes standard statements being budgeted Statements of Financial Performance, Financial Position and Cash Flows. These statements have been prepared for the year ended 30 June in accordance with Australian Accounting Standards including AAS27, “Financial Reporting by Local Governments” and in accordance with the Act and Regulations. The budgeted statement of cash flows has been prepared net of GST. It also includes detailed information about the rates and charges to be levied, the capital works program to be undertaken and other financial information, which Council requires in order to make an informed decision about the adoption of the budget.

The budget includes consideration of a number of long term strategies to assist Council in considering the Budget in a proper financial management context. These include a high level Long Term Financial Plan for the years 2003/2004 to 2012/2013 (section 9.), Rating Strategy (section 10.), Borrowing Strategy (section 11.) and Infrastructure Strategy (section 12.).

2.4 Budget Process

The key dates for the annual plan and budget process are summarised below:

1.	Budget submitted to Council for Approval	25 June 03
2.	Public notice advising of intention to adopt budget	2 July 2003
3.	Budget available for public inspection and comment	2 – 18 July 2003
4.	Submissions period closes	18 July 2003
5.	Budget and submissions presented to Council for adoption	23 July 2003

2.5 Significant influences

External influences

In preparing the 2003/2004 budget there were a number of external influences, which were taken into consideration, because they were likely to impact significantly on the services delivered by Council in the ensuing twelve months. These included:

- The need to renegotiate a new Enterprise Bargaining Agreement (“EBA”). Wages growth is projected to be 3.5% per annum for 2003/2004 and beyond. (Victorian Budget Papers 2003/2004).
- Projected Consumer Price Index (CPI) increases on goods and services of around 3.0% per annum
- Reduction of $0.34 million in Victorian Grants Commission funding.
- Mandatory contribution of $0.5 million to the Waratah Bay Caravan Park effluent upgrade.
- Superannuation unfunded liabilities of $1.16 million brought to account as at 30 June 2003.
- Mandatory EPA Land fill requirements $0.3 million.
- Unavoidable cost increases in Workcover of $0.2 million and insurance premiums of $0.21 million.
- Prevailing economic conditions which are expected to remain difficult during the budget period, impacting interest rates.

Internal influences

As well as external influences, there were also internal influences arising from the 2002/2003 year which have had a significant impact on the setting of the 2003/2004 Budget. These include the cash available and significant amount of projects carried forward, both capital ($1.89 million) and operational expenditure that is tied to grant funds ($0.43 million).

Section 8. “Impact of Current Year Results on 2003/2004 Budget” provides further analysis of these internal influences.

2.6 Key budget principles for the 2003/2004 year

In response to these significant influences, guidelines were prepared and distributed to all council officers with budget responsibilities. The guidelines set out the key budget principles upon which the officers were to prepare their budgets. The principles included:

- Existing fees and charges to be increased in line with CPI or market levels;
- Grants to be based on confirmed funding levels;
- New revenue sources to be identified where possible;
- Service levels to be maintained at 2002/2003 levels with an aim to use less resources with an emphasis on innovation and efficiency;
- Contract labour to be minimised;
- New initiatives or projects which are not cost neutral to be justified through a business case, and
- Real savings in expenditure and increases in revenue identified in 2002/2003 to be preserved.

2.7 Key budget outcomes

Whilst the 2003/2004 budget has been prepared on the basis of constraint, it is acknowledged that the Council still needs to fund new community and organisational initiatives if it is to remain innovative and cognisant of the community’s needs. This year’s budget includes a number of new initiatives details of which are included in Appendix E.

The following is a summary of the key budget outcomes:

• Small town “Pride of Place” civic improvements	$30,000
• Infrastructure development to support business activity	$20,000
• Charettes “Small Town” community building program	$50,000
• Promotion of lifestyle advantages	$20,000
• Attraction of business investment	$65,000
• Asset management	$50,000

3. Highlights

This section of the annual budget report summarises the highlights of the budget which are expected to be of greatest interest to the community. The summary looks at the four key areas of:

- Operating budget
- Budgeted cash position
- Capital works budget
- Budgeted financial position

Each of these areas is addressed below.

3.1 Operating budget

	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	Variance $'000
Operating			
Revenue	30,004	30,574	570
Expenditure	(32,585)	34,061	(1,476)
	(2,581)	**(3,487)**	**(906)**
Capital			
Revenue	2,175	3,426	1,251
Operating surplus (deficit)	**(406)**	**(61)**	**345**

The Budgeted Statement of Financial Performance forecasts a deficit of $0.06 million for the year ending 30 June 2004, after capital grants, which is an improvement of $0.35 million over 2002/2003. Before capital funding, an operating deficit of $3.49 million is forecast, an increase of $0.91 million in net operating costs on the 2002/2003 year. Funding for capital works increases by $1.25 million to $3.43 million. Refer to Section 4. "Analysis of Operating Budget" for a more detailed analysis.

3.2 Budgeted cash position

Cash Inflows(Outflows)	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	Variance $'000
Operating	6,625	4,836	(1,789)
Investing	(7,184)	(8,515)	(1,331)
Financing	(208)	1,318	1,526
Net increase(decrease) in cash held	**(767)**	**(2,361)**	**(1,594)**
Cash at beginning of year	4,839	4,072	(767)
Cash at end of year	**4,072**	**1,711**	**(2,361)**

The Budgeted Statement of Cash Flows shows a net decrease in cash resources of $2.36 million for the year ending 30 June 2004. This consists of a $1.79 million decrease in cash generated from operating activities mainly resulting from increased expenditure in materials and consumables and other expenses**.** There is an increased usage of cash of $1.33 million in investing activities due to the increase in the 2003/2004 capital works budget. The increase is offset by an increase in cash in financing activities bought about by borrowing $2.2 million. Overall, total cash and investments are forecast to be $1.71 million as at 30 June 2004, which leaves no spare working capital capacity. Refer to Section 5. “Analysis of Budgeted Cash Position” for a more detailed analysis.

3.3 Capital Works Budget

Funding Sources	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	Variance $'000
External	4,848	7,687	2,839
Internal	4,529	2,912	(1,617)
Total funding	**9,377**	**10,599**	**1,222**
Capital works	(9,377)	(10,599)	(1,222)
Capital surplus (deficit)	**0**	**0**	**0**

The 2003/2004 Budgeted Statement of Capital Works forecasts total capital works of $10.60 million, which is an increase of $1.22 million over 2002/2003. The funding sources for the capital works program include $7.69 million from external sources such as grants, contributions, borrowing's and proceeds from sale of assets and $2.91 million from internal sources such as reserve cash and investments and working capital. The capital works program includes incomplete projects from the 2002/2003 year of $1.89 million. Refer to Section 6. “Analysis of Capital Budget” for a more detailed analysis.

3.4 Budgeted Financial Position

	Forecast Actual 30 Jun 03	Budget 30 Jun 04	Variance
	$'000	**$'000**	**$'000**
Assets & Liabilities			
Net current assets	3,480	1,694	(1,786)
Net non current assets	172,524	174,249	1,725
Net assets	**176,004**	**175,943**	**(61)**
Equity			
Accumulated surplus	122,554	122,650	96
Reserves	53,450	53,293	(157)
Total equity	**176,004**	**175,943**	**(61)**

The Budgeted Statement of Financial Position shows net assets of $175.94 million as at 30 June 2004, which is a decrease of $0.06 million over 2002/03. This is comprised of a $1.79 million decrease in net current assets resulting mainly from the utilising of all available working capital to fund the capital works program, and a $1.73 million increase in net non-current assets also resulting from the proposed capital works program. Refer to Section 7. "Analysis of Budgeted Financial Position" for a more detailed analysis.

4. Analysis of Operating Budget

This section of the annual budget report analyses the expected revenues and expenses of the Council for the 2003/2004 year.

4.1 Operating Revenue

Revenue Types	Reference	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	(Unfav) Variance $'000
Rates & charges	4.1.1	15,182	16,310	1,128
Operating grants	4.1.2	8,074	8,554	480
Capital grants & contributions	4.1.3	2,175	3,426	1,251
Reimbursements	4.1.4	409	406	(3)
Contributions	4.1.5	359	77	(282)
Interest	4.1.6	274	206	(68)
User charges	4.1.7	1,374	1,408	34
Statutory Fees	4.1.8	359	308	(51)
Proceeds from sale of assets	4.1.9	2,173	2,061	(112)
Other	4.1.10	1,800	1,244	(556)
Total operating revenue		**32,179**	**34,000**	**1,821**

4.1.1 Rates and Charges ($1.13 million increase)

It is proposed that general rate income be increased by 6.0% or $0.91 million over 2002/2003 to $16.31 million. Supplementary rates are forecast to be $0.05 million and Special charge rates $0.17 million. Section 10. "Rating Strategy" includes a more detailed analysis of the rates and charges to be levied for 2003/2004.

4.1.2 Operating Grants ($0.48 million increase)

Government grants include all monies received from State and Federal sources for the purposes of funding the delivery of Council's services to ratepayers. Overall, the level of grants has increased by 5.9% or $0.48 million compared to 2002/2003. Significant movements in grant and contribution funding are summarised below:

Revenue Types	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	(Unfav) Variance $'000
General Revaluation	194	2	(192)
Local Roads	62	0	(62)
Non HACC services	288	237	(51)
Major works – Community projects	441	556	125
Economic Dev't & Tourism Mgt	50	385	335
Victorian Grants Commission	6,200	5,809	(391)

The reduction in Victorian Grants Commission (VGC) funding results from changes to the funding formula following a review of the basis of funding by the VGC. Further, the corrections to the road lengths of local roads also had an adverse impact on funding. Grants are provided every two years by the State Revenue Office to offset some of the costs associated with the general revaluation of all the rateable properties within the shire.

Significant projects within economic development include the Dairy processor attraction and pride of place initiatives.

4.1.3 Capital Grants and Contributions ($1.25 million increase)

Capital grants include all monies received from State and Federal governments and community sources for the purposes of funding the capital works program. Overall the level of grants has increased by 57% or $1.25 million compared to 2002/2003 due mainly to specific funding for some large capital works projects, namely Leisure Centre ($1.01 million) and the Cape Liptrap Road Walkerville ($0.67 million). Public contributions to community the Leisure centre amount to $0.23 million. Section 6. “Analysis of Capital Budget” includes a more detailed analysis of the grants and contributions expected to be received during the 2003/2004 year.

4.1.4 Reimbursements ($3,000 decrease)

There are no significant movements for reimbursements for recreation facilities and insurances.

4.1.5 Contributions ($0.29 million decrease)

There has been an overall reduction in contributions by government and community sources of 78% or $282,000. Significant reductions include Great Southern Rail Trail, ($80,000) Urban traffic management ($78,000), Design services ($38,000) and Public amenities ($19,000).

4.1.6 Interest Revenue ($68,000 decrease)

Interest revenue includes interest on investments and rate arrears. Interest on investments is forecast to decline by $52,000 compared to 2002/2003. This is mainly due to a forecast reduction in Council’s available cash reserves during 2003/2004 to fund infrastructure projects. In addition, Reserve Bank of Australia economic forecasts indicate that there is unlikely to be any upward pressure on interest rates in the budget period. Interest on unpaid rates is forecast to decrease by $15,000 compared to 2002/2003 following an analysis of the expected level of unpaid rates during 2003/2004.

4.1.7 User Charges ($34,000 increase)

User charges relate mainly to the recovery of service delivery costs through the charging of fees to users of Council's services. These include use of leisure, entertainment and other community facilities and the provision of human services such as aged and disabled services.

Council plans to increase user charges for the majority of areas by 3.0% in line with expected inflationary trends over the budget period to maintain parity of user charges with the costs of service delivery.

4.1.8 Statutory Fees ($51,000 decrease)

Statutory fees relate mainly to fees and fines levied in accordance with legislation and include animal registrations, Planning, Health Act registrations and parking fines.

Council has also anticipated a reduction in fees from the Planning services ($58,000) resulting from the expected slowdown in the housing market

4.1.9 Proceeds from Sale of Assets ($0.11 million decrease)

Proceeds from the sale of Council assets of $2.06 million for 2003/2004 relate mainly to the planned cyclical replacement of part of the plant and vehicle fleet ($1.49 million) and sale of properties including surplus land throughout the municipality ($0.57 million).

4.1.10 Other Revenue ($0.55 million decrease)

Other revenue relates to a range of unclassified items such as cost recoupments and other miscellaneous income items including income from private works.

Other revenue is projected to decrease by 31% or $0.55 million in 2003/2004. The main cause for the decrease is private works ($0.46 million) due to expected decrease in demand for sealing services.

4.2 Operating Expenditure

Expenditure Types	Reference	Forecast Actual 2002/03 $'000	Budget 2003/04 3 $'000	(Unfav) Variance $'000
Employee costs	4.2.1	12,067	12,236	(169)
Materials and consumables	4.2.2	9,558	11,156	(1,598)
Utilities	4.2.3	493	510	(17)
Depreciation	4.2.4	5,693	6,003	(310)
WDV assets sold	4.2.5	1,990	1,779	211
Other expenses	4.2.6	1,943	1,479	464
Borrowing cost expenses	4.2.7	841	898	(57)
Total operating expenditure		**32,585**	**34,061**	**(1,476)**

4.2.1 Employee Costs ($0.17 million increase)

Employee costs include all labour related expenditure such as wages and salaries and on-costs such as allowances, leave entitlements, employer superannuation, rostered days off and fringe benefits tax. Employee costs are forecast to increase by less than 2% or $0.17 million compared to 2002/2003. It must be noted that the employee costs for 2002/2003 actually include $1.16 million of unfunded superannuation that is to be bought to account at 30 June 2003. The actual employees cost increases are closer to 10% if the unfunded superannuation liability is excluded from the calculation

This increase relates to a number of factors:

- renegotiation of Council's Enterprise Bargaining Agreement (EBA) and banding and contract staff increments which is estimated to cost $0.4 million in 2003/2004 as well as the flow on effect to superannuation expenses.
- Increase in Workcover premiums which is in excess of $0.2 million.
- Increases in staff resources in the planning, valuation / rates and property departments as a result of increased demand for services, work load requirements from valuation best practice requirements and recommencing "In House Toilet Cleaning" services
- Reclassifying significant amounts of parks and gardens works from capital to operational expenditure.

In summary, average staff numbers during the budget period are provided below. The classification permanent includes full time and part time staff and is expressed as equivalent full time (EFT). The casuals are expressed in total numbers (not in EFT).

Type of employment	Number of EFT's	
	2002/03	2003/04
Permanent	179	182
Casual	53	55
Total	232	237

4.2.2 Materials & Consumables ($1.56 million increase)

Materials and consumables are forecast to increase by 17% or $1.56 million compared to 2002/2003. This relates mainly to one off type expenses as well as unavoidable cost increases in other areas. The major cost movements are summarised below:

- Community projects- $0.6 million
- Economic development projects- (Core industry, Natural gas, Dairy processor) $0.5 million
- Project operations- (kerbside & garbage collections, transfer station & landfills) $0.3 million
- Property maintenance- $0.2 million
- Insurances $0.2 million
- Road to Recovery- operational costs $0.1 million

Cost reductions are forecast for private works ($0.23 million) and in relation to land development costs ($0.11 million).

4.2.3 Utilities ($17,000 increase)

Utility costs relate to telecommunications, including usage of telephones and other utilities such as water, gas and electricity. Utility costs are forecast to increase by 3.0% or $17,000 compared to 2002/2003.

4.2.4 Depreciation ($0.3 million increase)

Depreciation relates to the usage of Council's property, plant and equipment including infrastructure assets such as roads and drains. The increase of $310,000 for 2003/2004 is due mainly to the completion of the 2003/2004 capital works program and the full year effect of depreciation on the 2002/2003 capital works program. Refer to section 6. "Analysis of Capital Budget" for a more detailed analysis of Council's capital works program for the 2003/2004 year.

4.2.5 WDV of Assets Sold ($0.21 million decrease)

The written down value of assets sold is the cost of assets intended to be sold less any accumulated depreciation. The decrease of $0.44 million for plant and fleet is consistent with the reduction in proceeds from sale of those assets. This is offset by a $0.23 million increase in the value of land that is to be sold.

4.2.6 Other Expenses ($0.46 million decrease)

Other expenses relate to a range of unclassified items including contributions to community groups, advertising, insurances, motor vehicle registrations and other miscellaneous expenditure items. Other expenses are forecast to decrease by 23% or $0.46 million compared to 2002/2003 due to a recognition of a $0.5 million contribution to the Waratah Bay caravan park effluent upgrade in 2002/2003.

4.2.7 Borrowing Cost Expenses (57,000 increase)

Borrowing cost expenses represent the interest cost associated with borrowed funds. The costs are forecast to increase in 2003/2004 due to the drawing down of a $0.5 million loan in 2002/2003 and after making allowances for the additional interest costs that are associated with the $2.2 million that will be borrowed in the 2003/2004.

5. Analysis of budgeted cash position

This section of the budget report analyses the expected cash flows for the 2003/2004 year. The analysis is based on three main categories of cash flow. In summary these are:

- Operating activities-these activities refer to the cash generated or used in carrying out the normal service delivery functions of Council
- Investing activities-these activities refer to cash generated or used in the enhancement or creation of infrastructure and other assets. These activities also include the acquisition and sale of other assets such as vehicles, property, equipment, etc.
- Financing activities-these activities refer to cash generated or used in the financing of Council functions and include borrowings from financial institutions and advancing of repayable loans to other organisations. These activities also include repayment of borrowings.

The significance of budgeting cash flows for Council is that it is a key factor in setting the level of rates each year.

5.1 Analysis of Budgeted Statement of Cash Flows

	Reference	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	Variance $'000
Operating Activities	5.1.1			
Receipts		30,762	31,315	553
Payments		(24,137)	(26,479)	(2,342)
Net cash inflow (outflow)		**6,625**	**4,836**	**(1,789)**
Investing Activities	5.1.2			
Receipts		2,193	2,084	(109)
Payments		(9,377)	(10,599)	(1,222)
Net cash inflow (outflow)		**(7,184)**	**(8,515)**	**(1,331)**
Financing Activities	5.1.3			
Receipts		500	2,200	1,700
Payments		(708)	(882)	(174)
Net cash inflow (outflow)		**(208)**	**1,318**	**1,526**
Net increase (decrease) in cash held		**(767)**	**(2,361)**	**(1,594)**
Cash at beginning of year		4,839	4,072	(767)
Cash at end of year	5.1.4	**4,072**	**1,711**	**(2,361)**
Represented by:				
Reserve cash and investments				
- Statutory		0	0	0
- Discretionary		157	0	(157)
-Working capital		3,915	1,711	(2,204)
	5.2	**4,072**	**1,711**	**(2,361)**

5.1 1 Operating Activities ($1.79 million decrease)

The decrease in cash inflows from operating activities is due mainly to a $2.13 million increase in expenditure on materials, consumables and other expenses, and a reduction in contributions and other income of $0.84 million. This was partially offset by a $1.2 million increase in capital grants to fund the capital works program and a $1.13 million increase in rates and charges (including special charge scheme income).

5.1 2 Investing Activities ($1.33 million increase)

The $1.33 million increase in payments for investing activities represents the planned large increase in capital works expenditure including expenditure on the Leisure centre as disclosed in Appendix D of this budget report. Proceeds from sale of assets is forecast to be $0.11 million less than the previous year.

5.1.3 Financing activities ($1.53 million increase)

Financing cash flow includes $2.2 million borrowing for 2003/2004. Financing activities includes the principal component of loan repayments for the year. For 2003/2004 the total of principal repayments increases to $0.88 million.

5.1.4 Cash at end of the Year ($2.36 million decrease)

Overall, total cash and investments is forecast to decrease by $2.36 million to $1.71 million as at 30 June 2004, reflecting Council's strategy of using all available cash and investments. This is at the lower end of the parameters specified in Council's Long Term Financial strategy. The Long term financial plan (see Section 9.) takes this into account and forecasts a significant reduction in the capital works program from 2004/2005 onwards to balance future cash budgets.

5.2 Reserve Cash, Investments and Working Capital

The cash flow statement above indicates that Council is estimating that at 30 June, 2004 it will have cash and investments of $1.71 million which has been earmarked as follows:

- **Working capital ($1.71 million**) - these funds are free of all specific Council commitments and represent funds available to meet daily cash flow requirements and unexpected short term needs. Council regards these funds as the absolute minimum necessary to ensure that it can meet its commitments as and when they fall due without borrowing further funds. A higher level of working capital would be considered desirable because 60% of Council's rate revenue is not received until February each year. This again is reflected in the long-term financial plan.

- **Statutory purposes ($0)** - Currently there are no funds allocated to statutory reserves. Statutory reserves funds must be applied for specified statutory purposes in accordance with various legislative and contractual requirements. Whilst these funds earn interest revenues for Council, they are not available for other purposes.

- **Discretionary purposes ($0.**) - The balance of reserve funds in 2002/2003 for plant replacement ($157,000) has been reallocated to equity. Allocations to discretionary reserves in future years will normally only occur when surplus operating results equivalent to the reserve transfer is achieved. These funds will be available for whatever purpose Council decides is their best use. There are no restrictions on the use of these funds other than as Council may itself impose. The decisions about future use of these funds will be reflected in Council's Long Term Financial Plan and any changes in future use of the funds will be made in the context of the future funding requirements set out in the plan. Any changes will be reflected in the plan.

6 Analysis of Capital Budget

This section of the budget report analyses the planned capital expenditure budget for the 2003/2004 year and the sources of funding for the budget.

6.1 Funding Sources

Sources of Funding	Reference	Forecast Actual 2002/03 $'000	Budget 2003/04 $'000	Variance $'000
External				
Grants and contributions	6.1.1	2,175	3,426	1,251
Proceeds on sale of assets	6.1.2	2,173	2,061	(112)
Borrowing	6.1.3	500	2,200	1,700
Sub total		4,848	7,687	2,839
Internal				
Operations	6.1.4	4,450	1,410	(3,040)
Working capital	6.1.5	79	1,502	1,423
Sub total		4,529	2,912	(1,617)
Total funding sources		**9,377**	**10,599**	**1,222**

The sources of funding are explained in detail below.

6.1.1 Grants and contributions ($3.43 million)

Capital grants and contributions include all monies received from State, Federal and community sources for the purposes of funding the capital works program. Significant grants and contributions are budgeted to be received for the Leisure Centre ($1.24 million), Roads to recovery ($1.23 million), Cape Liptrap road ($0.67 million), Leongatha Transport Interchange ($0.1 million) and the Korumburra Library ($0.09 million).

6.1.2 Proceeds from sale of assets ($2.06 million)

Proceeds from sale of assets include motor vehicle sales in accordance with Council's fleet renewal policy of $1.49 million and sale of land of $0.57 million.

6.1.3 Borrowing ($2.2 million)

Council is forecasting to borrow $2.2 million to provide funding for the Leisure Centre project.

6.1.4 Operations (1.41 million)

During the year Council generates cash from its operating activities, which is used as a funding source for the capital works program. It is forecast that $1.41 million will be generated from operations to fund the 2003/2004 capital works program (after allowing for capital grants and contributions as discussed in Section 6.1.1). Refer section 5. "Budgeted Cash Position" for more information on funds from operations.

6.1.5 Working capital ($1.5 million)

Council also has cash and investments which represent working capital and funds preserved from the previous year mainly as a result of grants and contributions being received in advance. Also, projects that had been budgeted for but not completed in the 2002/2003 financial year were therefore carried forward to 2003/2004 . It is forecast that $1.5 million will be available from the 2002/2003 year to fund the 2003/2004 capital works program.

6.2 Capital works

Capital Works Areas	Reference	Forecast Actual 2002/2003 $'000	Budget 2003/2004 $'000	Variance $'000
Works for 2003/2004				
Roads	6.2.1	3,728	4,267	539
Bridges	6.2.2	117	132	15
Drains & Culverts	6.2.3	0	0	0
Other Structures	6.2.4	353	457	104
Buildings	6.2.5	2,343	3,354	1,011
Land	6.2.6	78	20	(58)
Plant & Equipment	6.2.7	2,758	2,369	(389)
Total capital works*		**9,377**	**10,599**	**1,222**
Works for 2003/2004 represented by:				
Capital expenditure				
New assets		4,003	4,936	933
Existing asset improvements		5,374	5,663	289
Total capital works		**9,377**	**10,599**	**1,222**
Works carried forward*				
Works carried forward from previous year	6.2.8	2,907	1,888	(1,019)

* These items are included in the capital works areas and in the total capital expenditure

6.2.1 Roads ($4.27 million)

For the 2003/2004 year, $4.27 million will be expended on road projects. The more significant projects include local road resheets ($1.2 million), reseals ($1.1 million) and the Cape Liptrap road ($0.80 million).

6.2.2 Bridges ($0.13 million)

For the 2003/2004 year, $0.13 million will be bridges. The more significant renewal projects include Agnes river ($77,000), Huttons Road ($28,000) and A. Brown's road bridge ($26,000).

6.2.3 Drains & Culverts ($0.0 million)

There is no programmed capital expenditure on drains and culverts in 2003/2004.

6.2.4 Other Structure's ($0.46 million)

For the 2003/2004 year, $0.46 million will be expended on other structures. The more significant projects include Foster landfill ($0.2 million) and the Koonwarra landfill ($0.17 million).

6.2.5 Buildings ($3.35 million)

For the 2003/2004 year, $3.35 million will be expended on buildings. The more significant projects include the Leisure centre project ($2.83 million), Korumburra library ($0.23 million), Waratah Bay caravan park toilet ($ 0.12 million), and the Radovick street upgrade ($0.09 million).

6.2.6 Land ($20,000)

For the 2003/2004 year $20,000 has been allowed for sundry land purchases.

6.2.7 Plant & Equipment ($2.37 million)

This predominantly relates to ongoing cyclical replacement of the plant and vehicle fleet ($2.37 million).

6.2.8 Carried forward works ($1.89 million)

At the end of each financial year there are projects, which are either incomplete or not commenced due to planning issues, weather delays, extended consultation etc. For the 2002/2003 year it is forecast that $1.89 million of capital works will be incomplete and be carried forward into the 2003/2004 year. The more significant projects include the Leisure center project ($0.4 million), Outtrim road ($0.35 million), Bena Kongwak Road ($0.2 million) and the Foster landfill ($0.2 million).

7 Analysis of budgeted financial position

This section of the budget report analyses the movements in assets, liabilities and equity between 2002/2003 and 2003/2004.

7.1 Budgeted Statement of Financial Position

	Reference	Forecast Actual 30 Jun 03	Budget 30 Jun 04	Variance
		$'000	**$'000**	**$'000**
Current				
Assets	7.1.1	7,347	5,174	(2,173)
Liabilities	7.1.2	(3,867)	(3,480)	387
Net current assets		**3,480**	**1,694**	**(1,786)**
Non Current				
Assets	7.1.3	186,673	189,467	2,794
Liabilities	7.1.4	(14,149)	(15,218)	(1,069)
Net non current assets		**172,524**	**174,249**	**1,725**
Net assets		**176,004**	**175,943**	**(61)**
Equity	7.1.5			
Accumulated surplus		122,554	122,650	96
Reserves		53,450	53,293	(157)
Total equity		**176,004**	**175,943**	**(61)**

7.1 1 Current Assets ($2.17 million decrease)

The decrease in current assets is mainly due to a $2.36 million decrease in cash and investments during 2003/2004 to fund the capital works program. A more detailed analysis of this change is included in section 5. "Budgeted Statement of Cash Flows". Rate and other debtors are not expected to change significantly.

7.1 2 Current Liabilities ($0.39 million increase)

The increase in current liabilities (that is, obligations that council must pay within the next 12 months) is not large. Other than the increase of $0.39 million for borrowing there are no significant movements in current liabilities. Amounts owed to suppliers are not expected to change.

7.1 3 Non Current Assets ($2.79 million increase)

The increase in non-current assets is due to the net result of the capital works program ($10.60 million), the depreciation of all non-current assets with the exception of land ($6.0 million) and the written down value of property, plant and equipment sales ($1.78 million). Long term debtors relating to loans to community organisations will reduce by $23,000.

7.1.4 Non Current Liabilities ($1.07 million increase)

The increase in movements in non current liabilities is due primarily to the non current portion of the proposed borrowing of $2.2 million and movements in provision for long service leave.

7.1 5 Equity ($0.06 million decrease)

The decrease in the accumulated surplus is due to the forecast operating deficit of $0.06 million.

In addition to this change an amount of $0.16 million will be transferred from Council reserves to accumulated surplus. This reflects the usage of investment reserves due mainly to expenditure on the capital works program, for which council has already allocated funds. As this transfer is a movement between balances within equity, it has no effect on the total balance of equity.

7.2 Key assumptions

In preparing the Budgeted Statement of Financial position for the year ended 30 June 2004 it was necessary to make a number of assumptions about key assets, liabilities and equity balances. The key assumptions are as follows:

- The collection level of rates and charges that will be collected in 2003/2004 will be at similar levels to that of previous years.
- Trade creditors and other creditors and debtors to remain consistent with 2002/2003 levels.
- Proceeds from the sale of property in 2003/2004 will be received in full in 2003/2004.
- Employee entitlements to be marginally increased to allow for wage movements. No increase in the average rate of leave taken is expected.
- Repayment of loan principal (including hire purchase) to be $0.88 million
- Total capital expenditure to be $10.60 million.
- A total of $0.16 million to be transferred from reserves to accumulated surplus, representing the internal funding of the capital works program for the 2003/2004 year.

8 Impact of current year on 2003/2004 budget

This section of the budget report analyses the impact of variances from budget in the current year on the budget year to assess whether there will be any significant impacts on the 2003/2004 budget.

8.1 Operating performance

	Budget 2002/03 $'000	**Forecast Actual 2002/03 $'000**	**Variance $'000**
Operating			
Revenue	29,543	30,004	461
Expenditure	(35,283)	(32,585)	2,698
	(5,740)	**(2,581)**	**3,159**
Capital			
Revenue	1,683	2,175	492
Operating surplus (deficit)	**(4,057)**	**(406)**	**3,651**

As discussed in section 2.1 'Strategic planning framework', the annual budget that was prepared for 2002/2003 was in fact prepared in a 'rate determination' format. Rate determination budgeting can be best described as a quasi cash and accrual budgeting process. To comply with the Act and Regulations the rate determination budget was transformed into an operating budget at the end of the budgeting process.

This can create issues in relation to proper identification and correct flagging of expenditure that is deemed to be capital in nature. Further issues arise when actual projects or jobs are not distinguishable by line item type (labour material plant hire).

The table above shows the adopted budget for 2002/2003, and the forecast actuals are costing correctly allocated as per Australian accounting standards. The variations are most significant and favorable. Further analysis of the results is not warranted because the methodology of compiling the original budget is significantly different to how the actual costs were being incurred.

The forecast result however is very much taken into consideration and do have a significant impact on the preparation of the 2003/2004 budget.

8.2 Matters significant to the 2003/2004 budget

As a result of the changing budget methodology being used for the preparation of the 2003/2004 budget, key financial outcomes from the projected results of the 2002/2003 are taken into consideration.

The key considerations are:

- Expected closing cash position $4.07 million.
- The value of capital projects from the 2002/2003 year not yet completed and carried forward into 2003/2004 ($1.89 million)
- The value of operational projects that is tied to grant funds from the 2002/2003 year not yet completed and carried forward into 2003/2004 ($0.44 million)

9 Long term financial plan

9.1 Plan development

Amendments to the Local Government Act will require Council to comply with the following Principles of Sound Financial Management:

- Prudently manage financial risks relating to debt, assets and liabilities
- Provide reasonable stability in the level of rate burden
- Consider the financial effects of Council decisions on future generations: and
- Provide full, accurate and timely disclosure of financial information.

A high level Long Term Financial Plan for the years 2003/2004 to 2012/2013 has been developed as part of Council's ongoing financial planning to assist Council in adopting a budget within a longer term framework. The Plan takes into consideration the long term financial strategies as adopted by Council on April 16, 2003 and also takes the objectives and strategies as specified in the Council Plan and expresses them in financial terms for the next ten years. The key objective, which underlines the development of the Plan, is financial sustainability in the medium to long term, whilst still achieving Council's corporate objectives as specified in the Council Plan. The key financial objectives, which underpin the Long Term Financial Plan, are:

- Maintain existing service levels;
- Achieve a breakeven operating result as soon as practically possible;
- Maintain a capital expenditure program that gives priority to renewal expenditure ; and
- Achieve a balanced budget on a cash basis.

As mentioned in Section 2.1 “Strategic planning framework”, the Long Term Financial Plan is very much in its first stage of being developed. It is without question a vitally important strategic document that by and large determines the direction the Shire will take in becoming financially sustainable in the medium to long term. The plan will be further refined in the next six months.

The Plan will also be updated annually through a rigorous process of consultation with Council service providers followed by a detailed sensitivity analysis to achieve these key financial objectives. The key components of the Plan are:

- Assessment of Council's current financial position
- Key objectives and assumptions
- Service delivery
- Rating strategy
- Borrowing strategy
- Infrastructure strategy
- Key recommendations.

The following table and graph summaries the key financial indicators for the next five years as set out in the Long Term Financial Plan for years 2003/2004 to 2007/2008.

Indicator	Budget 2003/04	Forecast 2004/05	Forecast 2005/06	Forecast 2006/07	Forecast 2007/08
	$'000	$'000	$'000	$'000	$'000
Operating surplus/(deficit)	(61)	383	(794)	(778)	(493)
Cash from operations	1,410	4,582	4,661	5,512	6,266
Cash increase/(decrease)	(2,361)	(703)	384	859	(47)
Cash and investments	1,711	1,008	1,392	2,251	2,204
Borrowings outstanding	13,698	12,669	11,568	10,568	8,153
Depreciation	6,003	6,153	6,307	6,465	6,788
Capital expenditure	10,599	7,480	5,586	5,623	5,768
Working capital	1694	995	1,571	(2,035)	2,236
Net worth	175,943	176,326	175,532	174,754	174,261

9.2 Key outcomes

The key outcomes of the Long Term Financial Plan are as follows:

- **Service Delivery** – Services levels have been maintained throughout the ten year period. The council is however committed over the 2003/2004 financial year to identify savings in non core services and overhead costs. Any quantifiable recurrent savings that are recognised will be modeled into the 2004/2005 financial plan and beyond. For ongoing sustainable service delivery it is critical that council achieve in the first instance a breakeven operating result as soon as is practically possible.

- **Rating Strategy (section 10)** – For the 2004/2005 and 2005/2006 financial years rate increases have been modeled at 5% and 4.5% respectively above projected CPI. This is primarily due to an expected further reduction in VGC funding of $0.44 million in 2004/2005. Rate increases 3% above projected CPI rises (modeled at 2.5%) are then forecast over the following eight years at an average of 5.5%. The core objective being that the additional funds generated be directed to in the first instance producing break even operating results as well as for providing funding for capital renewal projects and reducing principal owing on borrowings;

- **Borrowing Strategy (section 11) –** Borrowings (including Hire Purchase commitments) are forecast to reduce from $13.70 million to $8.2 million over a five year period. This includes new borrowings of $2.2 million in 2003/2004 as well as refinancing a interest only loan that falls due in 2007/2008;

- **Infrastructure Strategy (section 12)** - Capital expenditure over the ten year period will have the primary objective of increasing expenditure on capital renewal projects. The target is to achieve a sustainability index of beyond 95%. The actual trend of the sustainability index in the 'stage one' financial plan is in fact going the wrong way and will not trend positively until 2009/2010. A core objective of the review of the plan will be to address this negative trend.

- **Financial Sustainability** - Cash and investments is forecast to reduce to dangerously low levels from 2004/2005 through to 2006/2007 before trending back up to what is deemed to be a satisfactory level by 2009/2010. This needs to be addressed in the forthcoming review of the financial plan.

It must again be stressed that the forward financial plan has been developed using the draft 2003/2004 budget as a base. It is very much a 'stage one' financial plan. The immediate years following 2003/2004 are critical years indeed, and in fact operationally the Shire would be perilously close to being unviable if it followed the plan verbatim!

The objective of quantifying in a very pragmatic way the financial circumstances of the Shire is to quantify the seriousness of the matter at hand. A comprehensive review of the financial plan will be undertaken by Council and staff within the next six months to ensure that the Shire further improves its financial viability in the future.

10 Rating strategy

10.1 Strategy development

In developing the Long Term Financial Plan (referred to in Section 9), rates and charges were identified as an important source of revenue, accounting for 47% of the total revenue received by Council annually. Planning for future rate increases has therefore has been an important component of the Long Term Financial Planning process.

However, it has also been necessary to balance the importance of rate revenue as a funding source with community sensitivity to increases, particularly given the change to bi-annual general revaluations and recent significant increases in valuations and subsequently rates for some properties in the municipality.

10.2 Current year rate increase

The 2003/2004 operating position is predicted to be significantly impacted by wages growth, unavoidable increases in insurances and unfunded superannuation, coupled with reductions in government funding such as the Victoria Grants Commission grant. It will therefore be necessary to achieve future revenue growth whilst containing costs in order to achieve a breakeven operating position by 2007/2008 as set out in the Long Term Financial Strategy. The contribution from operations towards capital investment for the 2002/2003 year is obviously very unsatisfactory. Unless this can be substantially increased, it will be difficult to maintain robust capital works programs into the future. It should be noted that the current capital renewal expenditure is $1.8 million short of optimum renewal expenditure levels in the 2003/2004 budget.

Council is very aware of the substantial increases in rates and charges that was borne by ratepayers in 2002/2003. It is also most evident that there simply is not enough funds being generated to maintain sustainable operations now and into the immediate future. However Council is committed to minimise the rate rise in 2003/2004.

General rates and charges will increase by 6.0% ($0.91 million) in 2003/2004 raising a total rate of $16.09 million, excluding supplementary rates and Special Charge Scheme income. Ordinarily, rates and charges increases would be targeted to be 3% above CPI to generate additional funds to allocate to improve the operating result and capital renewal expenses.

The following table sets out future proposed rate increases and total rates to be raised, (excluding supplementary and special charge rate income) based on the forecast financial position of Council as at 30 June 2003.

Year	Rate Increase %	Total Rates Raised $'000
2003/2004	**6.0%**	**16,092**
2004/2005	7.5%	17,299
2005/2006	7.0%	18,509
2006/2007	5.5%	19,527
2007/2008	5.5%	20,601

10.3 Rating structure

Council has established a rating structure that is comprised of two key elements. These are:

- Property values, which reflect capacity to pay, and a
- User pays component to reflect usage of garbage services provided by Council

Striking a proper balance between these elements provides equity in the distribution of the rate burden across residents.

Council makes a further distinction within the property value component of rates based on the purpose for which the property is used. The distinction is based on the concept that different property type uses should pay a fair and equitable contribution to rates taking into account the benefits derived from and to the local community.

Council re-affirmed to apply a Capital Improved Value (CIV) basis of applying rates as well as the rating differentials and relativities as was being applied in 2002/2003 on the basis that it provides the most equitable distribution of rates across the municipality. This included the municipal charge being set at 20% of total rates. Council also has a garbage charge and a recycling charge as allowed under the Act.

The rating structure comprises several differential rates and a rate concession for recreational land. These rates are structured in accordance with the requirements of section 161 "Differential Rates" of the Act. Under the Cultural and Recreation Lands Act 1963, provision is made for a Council to grant a rating concession to any "recreational lands" which meet the test of being "rateable land" under the Local Government Act 1989.

The existing rating relativities between property types and municipal and service charges are:

- Residential — Base rate
- Commercial — 100% of Residential rate
- Cultural or Recreational land — 40% of Residential rate
- Industrial — 100% of Residential rate
- Rural living — 100% of Residential rate
- Vacant land — 160% of Residential rate
- Farm land — 90% of Residential rate

The following table summarises the rates to be made for the 2003/2004 year. A more detailed analysis of the rates to be raised is contained in Appendix B “Statutory Disclosures”.

Rate type	**2002/2003**	**2003/2004**
Residential rates – rate in the $ of CIV	0.00457004	0.00483169
Commercial rates – rate in the $ of CIV	0.00457004	0.00483169
Industrial rates– rate in the $ of CIV	0.00457004	0.00483169
Rural Living– rate in the $ of CIV	0.00411212	0.00434852
Vacant Land – rate in the $ of CIV	0.00744234	0.00773070
Farm land – rate in the $ of CIV	0.00411212	0.00434852
Cultural / Recreational rates – rate in the $ of CIV	0.00186114	0.00193268
Municipal charge - $ per property	$170.90	$183.80
Garbage charge Residential - $ per property	$150.00	$159.00
Garbage Charge Commercial - $ per property	$200.00	$212.00
Recycling charge - $ per property	$20.60	$21.85

11 Borrowing strategy

11.1 Strategy Development

In developing the Long Term Financial Plan (see Section 9), borrowings was identified as an important funding source for capital works programs. In the past, Council has borrowed strongly to finance infrastructure projects, fleet purchases as well as for financing unfunded superannuation liabilities. With the exception of borrowing $2.2 million for the Leisure Centre council is now starting a phase of debt reduction. This will result in a reduction in debt servicing costs, but has meant that all cash and investment reserves have been used as an alternate funding source to maintain its capital works programs.

The Long Term Financial strategy analysed Council's debt position against the prudential ratios used by the Victorian State Government to assess the loan capacity of local governments. The outcome of the analysis highlighted that a debt of $6.0 million could be comfortably accommodated. On current loan projections this will not be achieved until 2009/10. Council has set this as a target goal to allow spare debt capacity for future major projects. The following table shows a history of Council borrowings for the last five years and also the prudential ratios applicable, as well as the budgeted outcome for 2003/2004.

Year	Total Borrowings 30 June $'000	Liquidity CA/CL Ratio	Debt Mgt Debt/Rates %	Debt Mgt Serv Costs/ Revenue %
1998/1999	9,859	2.8	100%	3.03%
1999/2000	10,577	2.8	99%	2.71%
2000/2001	10,893	2.2	87%	3.18%
2001/2002	12,588	2.1	95%	2.61%
2002/2003	12,380	2.0	83%	2.63%
2003/2004	13,698	**1.5**	**85%**	**2.64%**
	Threshold	**<1.1**	**>80%**	**>5%**

The table shows that Council's borrowing level at 30 June 2004 will be $13.7 million. It also shows that Council is trending the wrong way with the Victorian State Government's prudential ratio limits. By implementing the debt reduction strategy the long-term financial plan will show a positive trend in the future years.

11.2 Current year borrowings

For the 2003/2004 year, Council has decided to take out new borrowings to fund the capital works program (Leisure Centre, $2.2 million). Therefore after making loan repayments of $0.88 million, will increase its total borrowings to $13.7 million as at 30 June 2004. The following table sets out future proposed borrowings, based on the forecast financial position of Council as at 30 June 2003.

Year	New Borrowings $'000	Loan Principal Paid $'000	Loan Interest Paid $'000	Balance 30 June $'000
2002/2003	500	708	841	12,380
2003/2004	**2,200**	**882**	**897**	**13,698**
2004/2005	0	1,029	869	12,669
2005/2006	0	1,101	797	11,568
2006/2007	0	1,000	725	10,568
2007/2008	0	2,415	648	8,153
2008/2009	0	1,347	544	6,806
2009/2010	0	1,387	451	5,419

12 Infrastructure strategy

12.1 Strategy development

The Council has developed an Infrastructure Strategy that sets out the capital expenditure requirements of the Council for the next 10 years by class of asset and project. The key aspects of the process are as follows:

- Long term capital planning process which integrates with the Council Plan, Annual Plan, Long Term Financial Plan and Annual Budget processes;
- Listing of all known capital projects, prioritised within classes on the basis of evaluation criteria;
- Transparent process for evaluating and prioritising capital projects; and
- Methodology for allocating annual funding to classes of capital projects;

The capital planning process is undertaken annually and used to ensure that Infrastructure Strategy represents the current capital expenditure requirements of the Council.

A key objective of the Infrastructure Strategy is to maintain or preserve Council's existing assets at desired condition levels. If sufficient funds are not allocated to asset preservation then Council's investment in those assets will reduce, along with the capacity to deliver services to the community. A measure of Council's performance in respect to infrastructure management is the sustainability index. This is the proportion of the total asset value consumed (equivalent to the annual depreciation charge), compared to the amount spent in preserving the asset (expenditure aimed at ensuring the asset reaches its intended useful life) on an annual basis. A value of 100% or greater is the desired target and the Long Term Financial Strategy specifies achieving a sustainability index in excess of 95% in the medium to long term.

The following table sets out the sustainability index percentage for Council's assets, class by class, based on the forecast capital expenditure on existing assets for the 2002/2003 year.

	Replacem't Cost 30 Jun 03 $'000	**Average Annual Consump'n $'000**	**Average Annual Preserv'n $'000**	**Sustain Index %**
Roads	214,240	3,894	2,668	69
Bridges	21,555	226	106	47
Drains & Culverts	22,337	281	0	0
Buildings	28,402	533	378	71
Other structures	6,228	157	142	90
Total capital works	**292,762**	**5,091**	**3,294**	**65**

The table indicates that the 2003/2004 capital works program will achieve a sustainability index of 65%. This highlights the funding gap that Council faces in trying to maintain and replace its infrastructure assets. Capital renewal expenditure shortfall on an annual basis is in excess of $1.7 million.

12.2 Key influences for 2003/2004

The following influences had a significant impact on the Infrastructure Strategy for the 2003/2004 year:

- Reduction in the amount of cash and investment reserves to fund future capital expenditure programs;
- Availability of significant Federal funding for upgrade of roads;
- Projects such as the Leisure Centre committed to in previous years continuing in the 2003/2004 year
- Projects not started or completed that were funded in the 2002/2003 year being carried over to the 2003/2004 year

12.3 Funding sources for capital works

Council has no cash reserves that can be used to fund a variety of capital projects after the 2003/2004 year. The reserves are either “statutory” or “discretionary” reserves. Statutory reserves relate to Council held cash and investments that must be expended on a specific purpose as directed by legislation or other funding body and include contributions to car parking, drainage and public resort and recreation. Discretionary reserves relate to those funds that can be used at Council’s discretion, even though they may be earmarked for a specific purpose. Allocations in future years to discretionary reserves will only be viable if the proposed transfer is funded by an equivalent operating surplus in the Statement of financial performance.

Overview to Appendices

The following appendices include voluntary and statutory disclosures of information which provide support for the analysis contained in sections 1 to 12 of this report.

This information has not been included in the main body of the budget report in the interests of clarity and conciseness. Whilst the budget report needs to focus on the important elements of the budget and provide appropriate analysis, the detail upon which the annual budget is based should be provided in the interests of open and transparent government.

The contents of the appendices are summarized below:

Appendix	Nature of information
A	**Budgeted financial statements for 2003/2004**
B	**Statutory disclosures in the annual budget**
C	**Long term financial plan for the ten years ending 30 June 2013**
D	**Budgeted statement of capital works for 2003/2004**
E	**Activities and initiatives for 2003/2004**

APPENDIX A

Budget statements

Statement of financial performance
Statement of financial position
Statement of cash flows
Reconciliation of budgeted operating result and net cash flows

This section sets out the budgeted financial statements (including the standard statements) for 2003/2004 in detail. This information is the basis of the disclosures and analysis of the annual budget in the report.

APPENDIX B

Statutory disclosures

Section 144 of the Local Government Act 1989
Regulation 16 of the Local Government Regulations 2001

This section sets out additional disclosures pursuant to the above legislation in respect to the Council's annual budget.

The information set out below is required under the Local Government Act (1989) to be disclosed in South Gippsland Shire Council's annual budget.

1 Projected operating result

The projected revenue and expenses relevant to determining the operating result are disclosed in Appendix A – Budgeted Statement of Financial Performance.

2 Reconciliation of rate and operating results

Reconciliation of projected revenue and expense relevant to determining the amount to be raised by general rates and charges, with the projected revenues and expenses relevant to determining the operating result in Appendix A – Reconciliation of Budgeted Operating Result and Net Cash Flows.

3 Borrowings

The total amount proposed to be borrowed for the 2003/2004 year is	2,200,000
The total amount of debt redemption for the 2003/2004 year is	882,243
The projected debt servicing cost for the 2003/2004 year is	896,878

4 Capital works program

The projected capital works program and the funding sources for that program are disclosed in Appendix D – Capital works

5 Rates and charges

5.1 The proposed rate in the dollar for each type of rate to be levied:

a A general rate of 0.00483169 in the dollar of all rateable residential properties;

b A general rate of 0.00483169 in the dollar of all rateable commercial properties;

c A general rate of 0.00483169 in the dollar of all rateable industrial properties;

d A general rate of 0.00434852 in the dollar of all rateable farm land properties;

e A general rate of 0.00773070 in the dollar of all rateable vacant residential, rural living, commercial or industrial properties;

f A general rate of 0.00193268 in the dollar of all rateable cultural and recreational lands act properties;

5.2 The estimated amount to be raised by each type of rate to be levied:

Type of Property	2002/03 $	2003/04 $
Residential	4,854,491	5,132,427
Commercial	591,660	625,535
Industrial	132,467	140,051
Farm Land	4,983,926	5,270,447
Vacant Land	706,774	734,158
Cultural & Recreational Lands	8,079	8,390

5.3 The estimated total amount to be raised by rates is $11,911,008

5.4 The proposed percentage change in the rate in the dollar for each type of rate to be levied compared to that of the previous financial year.

Type of Property	Percentage Change
Residential	5.73%
Commercial	5.73%
Industrial	5.73%
Farm Land	5.75%
Vacant Land	3.85%
Cultural & Recreational Lands	3.87%

5.5 The number of assessments for each type of rate to be levied compared to the previous year:

Type of Property	2002/03	2003/04
Residential	9,769	9,910
Commercial	743	745
Industrial	93	97
Farm Land	3,756	3,770
Vacant Land	2,612	2,555
Cultural & Recreational Lands	22	22
Total number of assessments	**16,995**	**17,099**

5.6 The basis of valuation to be used is the Capital Improved Value (CIV).

5.7 The estimated total value of land in respect of which each type of rate is to be levied compared to the previous year:

Type of Property	2002/03 $	2003/04 $
Residential	1,037,999,500	1,062,242,500
Commercial	127,613,600	129,465,000
Industrial	28,145,000	28,986,000
Farm Land	1,209,463,000	1,212,009,000
Vacant Land	95,674,700	94,966,700
Cultural & Recreational Lands	4,501,000	4,341,000
Total	**2,503,396,800**	**2,532,010,200**

5.8 The proposed unit amount to be levied for each type of charge under section 162 of the Act:

Type of Charge	Per Rateable Property 2002/03 $	Per Rateable Property 2003/04 $
Municipal	170.90	183.80
Kerbside Garbage Collection (Residential)	150.00	159.00
Kerbside Garbage Collection (Commercial)	200.00	212.00
Recycling Charge	20.60	21.85
2nd Kerbside Garbage Collection (Residential)	150.00	159.00

5.9 The estimated amounts to be raised for each type of charge to be levied compared to the previous year are:

Type of Charge	2002/03 $	2003/04 $
Municipal	2,749,097	2,977,722
Kerbside Garbage Collection (Residential)	1,087,500	1,159.519
Kerbside Garbage Collection (Commercial)	24,800	26,712
Recycling Charge	206	458
2nd Kerbside Garbage Collection (Residential)	15,750	17,013
Total	**3,877,353**	**4,181,424**

5.10 The estimated amount to be raised by rates and charges: $16,092,432

5.11 There are no known significant changes, which may affect the estimated amounts to be raised by rates and charges. However, the total amount to be raised by rates and charges may be affected by:

- The making of supplementary valuations

- The variation of returned levels of value (e.g. valuation appeals)
- Changes of use of land such that rateable land becomes non-rateable land and vice versa;
- Changes of use of land such that vacant land becomes residential, commercial or industrial; farmland becomes residential land or other changes in land use.

6. Differential rates

Rates levied

The rate and amount of rates payable in relation to land in each category of differential are:

- A general rate of 0.483169% (0.00483169 in the dollar of CIV) for all rateable residential and rural living properties;
- A general rate of 0.434852% (0.00434852 in the dollar of CIV) for all rateable farm land properties;
- A general rate of 0.483169% (0.00483169 in the dollar of CIV) for all rateable commercial properties;
- A general rate of 0.483169% (0.00483169 in the dollar of CIV) for all rateable industrial properties;
- A general rate of 0.773070% (0.00773070 in the dollar of CIV) for all rateable vacant residential, commercial, rural living or industrial properties;
- A general rate of 0.193268% (0.00193268 in the dollar of CIV) for all rateable cultural and recreational lands act properties;

Each differential rate will be determined by multiplying the Capital Improved Value of each rateable land (categorized by the characteristics described below) by the relevant percentages indicated above.

Council considers that each differential rate will contribute to the equitable and efficient carrying out of Council functions. Details of the objectives of each differential rate, the types of classes of land, which are subject to each differential rate and uses of each differential rate, are set out below.

Residential Land

Residential land is any land, which is:

- Land located within the municipality that is residential, meaning rateable land upon which is erected a private dwelling which is used primarily for residential purposes,
- Land located within the municipality that is rural living, meaning land which is generally outside the established townships and which is primarily used and developed for residential purposes in a rural location.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets

- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2003/2004 financial year.

Commercial Land

Commercial land is any land, which is:

Land located within the municipality that is commercial, meaning rateable land, which is used primarily for business or commercial purposes, including structures, which are used in conjunction with or for purposes ancillary to business or commercial purposes.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2003/2004 financial year.

Cultural and Recreational Land

Cultural and Recreational land is any land, which is:

Land located within the municipality that is cultural or recreational land, as defined in Section 2 of the Cultural and Recreational Land Act 1960

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2003/2004 financial year.

Industrial Land

Industrial land is any land, which is:

Land located within the municipality that is industrial, meaning land upon which is erected a factory or workshop which is primarily used for industrial purposes and includes any land which is used in conjunction with or for purposes ancillary to industrial purposes for which the factory or workshop is being used, industry including but not being limited to the operations included in the definition of industry in the South Gippsland Shire Council Planning Scheme.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council’s budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2003/2004 financial year.

Vacant Land

Vacant land is any land, which is:

Land located within the municipality that is vacant, meaning land upon which no improvements have been made, improvements being work actually done or material use on and for the benefit of the land, so far as the work done or material used increases the value of the land which is capable of being developed for residential, commercial, rural living or industrial purposes.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is un-improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

Farm Land

Farmland is any land, which is:

Land located within the municipality that is farm land as defined in Section 2 of the Valuation of Land Act 1960.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services; and
- Provision of general support services.

The types and classes of rateable land within this differential are those having the relevant characteristics described above.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district, without reference to ward boundaries.

The use of land within this differential rate is any use of land.

The classification of land which is improved will be determined by the occupation of that land and have reference to the planning scheme zoning.

Appendix C

Long Term financial plan

Statements of financial performance

Statements of financial position

Statements of cash flows

This section includes Council's forecast financial performance and financial and cash positions for the years 2003/2004 to 2012/2013.

Appendix D

Capital works program

This section provides some details of the capital works program for 2003/2004

Appendix E

New initiatives

This section sets out program initiatives to be undertaken by Council in 2003/2004