South Gippsland Shire Council
Annual Budget – 2005 / 2006

Council Meeting 3 August 2005

South Gippsland
Shire Council

Contents

1. Executive Summary

Under the *Local Government Act 1989* as amended by the Local Government (Democratic Reform) Act 2003 (“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 2005/2006 to 2014/2015 has been developed to assist Council in adopting a budget within a longer-term prudent financial framework. The Strategic Resource Plan (SRP), which is a subset of the Long Term Financial Plan, contains a four-year 'forward budget'. The key objective of the Long Term Financial Plan and the Strategic Resource Plan is financial sustainability in the medium to long term, whilst still achieving the Council’s strategic objectives as specified in the Council Plan.

The 2005/2006 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 contributes to the achievement of all of the Council Plan strategic objectives and strategies included in the 2004-2008 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 2005/2006 Operating Budget forecasts an operating deficit of $1.33 million after raising rates and charges of $19.01 million including supplementary rates and special charges. Excluding capital funding, an operating deficit of $1.91 million is forecast for 2005/2006.

South Gippsland Council is aware that it needs to improve its 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 these sources are limited.

To address this situation, Council in April 2003 considered and adopted a number of long-term financial strategies, which focused on improving our finances over the forthcoming years, and this was reflected in the Long Term Financial Plan.

The long-term financial strategies were again further refined in 2004, and incorporated into both the Long Term Financial Plan and the Strategic Resource Plan. They are still relevant for this 2005/2006 budget.

Council operations and working capital position in 2005/2006 are expected to be significantly impacted by withdrawal in National Competitions Policy payments ($0.2million) and increases in some operating costs associated with both the Leisure centre and Coal Creek. At the same time, in accordance with the financial strategies, it will be necessary to achieve future revenue growth whilst containing costs in order to achieve and maintain at minimum a breakeven operating position over the future financial years. Although the Long Term Financial Plan now shows that consistent net surplus results are achievable over the future years, it should be noted that a surplus result before capital funding will not be achieved until 2008/2009.

In order to achieve a long-term sustainable financial position whilst maintaining service levels and a robust capital expenditure program, general rates and charges will increase by 6% in 2005/2006. The budgets for 2006/2007 and 2007/2008 will be particularly challenging due to having a particularly low net working capital position.

Ongoing operational savings also need to be achieved. Council and the Chief Executive will continue to review existing service levels with the objective of identifying savings in non-core services. The Long Term Financial Plan will be updated with any identified and sustainable savings. This in turn may facilitate the Shire achieving surplus operating results before capital funding earlier than what is currently modelled in the Long Term Financial Plan.

The total capital expenditure program will be $6.67 million. Of this amount $0.74 million relates to projects, which will be carried forward from the 2004/2005 year. The carried forward component is fully funded from the 2004/2005 year. Of the $6.67 million of capital funding required, $1.51 million is funded from Council operations. $4.42 million is funded from external grants & contributions and the balance (including the carried forward component) of $0.74 million from cash and working capital. The capital works program is significantly smaller than in previous years ($9.72 million in 2004/2005) due to the magnitude of the leisure centre project in the previous years budget as well as the decrease in amount of capital projects that are being carried forward from 2004/2005 ($2.04 million in 2003/2004).

The level of capital expenditure programs in previous years was financially unsustainable. In fact, the capital expenditure program is projected to have a flat profile for the next few years, whilst Council strengthens its overall financial position. By adhering to the financial strategies, Council in 2009/2010 and following years should be able to apply significant more funds to much needed capital works renewal projects in a financially responsible and sustainable manner.

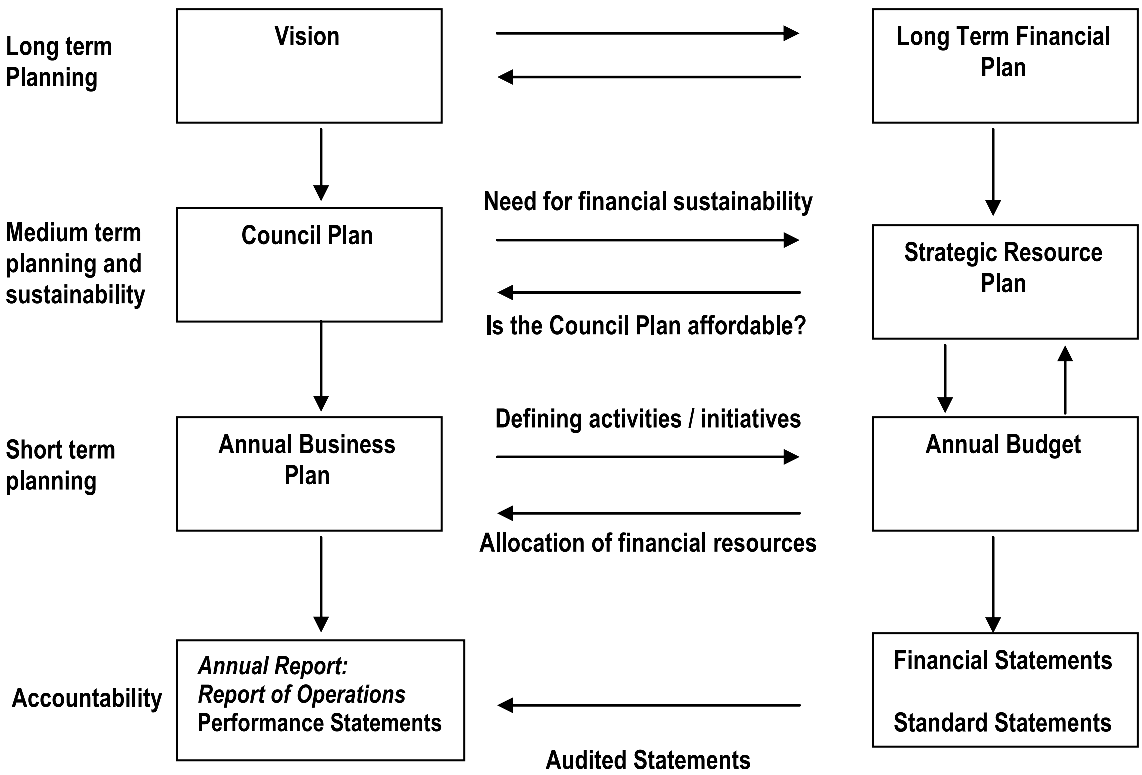
It is acknowledged that the Council still needs to fund new community and organisational initiatives if it is to remain innovative and cognisant of the community’s needs. In this year’s budget a number of new initiatives have been proposed. These are detailed in Appendix E “Activities and Initiatives by Team / Program”.

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) converting these into medium (Council Plan) and short term (Annual Business Plan) objectives, strategies, activities, initiatives and resource requirements and then holding itself accountable (Audited Statements).

The diagram below sets out the strategic planning and reporting framework of Council.



Council's Vision is *to effectively plan and provide for the social, economic, built and natural environments that ensure the future wellbeing of the South Gippsland Communities*.

The Long Term Financial Plan incorporates some very high level objectives / strategies as well as a 10 year long-term financial plan. The plan is the over arching document to the Strategic Resource Plan and the Annual Budget, and sets the future financial direction of the Council.

The Council Plan specifies key strategic objectives and strategies, whereas the Strategic Resource Plan (SRP) is a detailed forward budget that effectively quantifies the resources required over four years to achieve the strategic objectives.

The Annual Business Plan details activities, initiatives and outcomes planned to be undertaken including the identification of Key Strategic Activities (KSA's). The Annual budget details the resource requirements.

Finally, at year-end, the actual outcomes are reported upon in both the Annual report, Financial Statements and Standard Statements. The Financial Statements and the KSA's are subject to external audit.

The timing of each component of the planning framework is critical to the successful achievement of the planned outcomes. The Council 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 Business Plans (also referred to as 'Team Business Plans') in draft form prior to the commencement of the Annual Budget process in March.

Prior to the 2003/2004 financial year, 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 for current or future years when setting budgets.

In 2003/2004 Council changed its budgeting methodology from a rate determination basis to what is commonly referred to as 'Three Way Budgeting Methodology'. This technique produces forecast financial statements based on the assumptions about future movements in key revenues, expenses, assets and liabilities.

As a result, the 'stage one' Long Term Financial Plan developed in 2003/2004 focused on-

- Budget of financial performance (Income statement)
- Budget of cash position (Cash flow statement)
- Budget of financial position (Balance sheet) and
- Budget of capital works (Capex program)

Throughout the 2003/2004 financial year, the Long Term Financial plan was further refined, including the incorporation of specific capital works projects into the 10-year plan.

The 2004/2005 and now the 2005/2006 budget was very much developed within the framework of the 10 year forward financial plan.

Targets established during the long term financial planning process and the adherence to the key financial strategies, guided the preparation of this Annual Budget.

2.2 Council Plan outcomes

The Annual Budget includes the activities and initiatives to be funded that will contribute to achieving the strategic objectives specified in the Council Plan. The Annual Budget converts these activities and initiatives 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 strategies / indicators of success for achieving these objectives for the 2005-2009 years are set out on the following page.

Council Plan Strategic Objective	Strategies / Indicators of Success
<u>Social Environment</u> ***'Facilitate, plan and provide services that increase the viability of our communities'***	• Facilitate partnerships that will strengthen communities • Support and / or provide a range of community services to meet the changing needs of our communities • Facilitate policies and programs that protect cultural, heritage and indigenous assets <u>Indicators of Success</u> ▪ Community satisfaction with Council Services to remain above a score of 70 in the Annual Community Satisfaction Survey ▪ Implementation of the service review program and the program's outcomes to ensure Best Value for the community
<u>Built Environment</u> ***'Develop and guide sustainable urban design and infrastructure that will endeavour to meet the long term aspirations and needs of our communities'***	• Develop land use planning policies that reflect the aspirations of the community and provide for the appropriate use and development of land resources including agricultural and rural living • Lobby for the provision of improved wastewater, telecommunications, water, gas, transport , water, power gas and roads • Define, quantify, cost and prioritise capital works and maintenance programs for future years using appropriate asset management systems • Promote social infrastructure to attract population growth. <u>Indicators of Success</u> ▪ Implementation of the Asset Management and Capital Works Program ▪ Community satisfaction with Council's planning policies and strategies to remain above a score of 55 in the Annual Community Satisfaction Survey ▪ Develop an Open Space Strategy
<u>Economic Environment</u> ***'Encourage investment, development and services that facilitate a planned and sustained growth for the Shire'***	• Nurture and support our existing industries • Lobby and facilitate for new or expanded business and investment opportunities within the Shire • Support the supply of clean agricultural products <u>Indicators of Success</u> ▪ Community satisfaction with Council's Economic Development initiatives to remain above a score of 55 in the Annual Community Satisfaction Survey ▪ Documented Economic growth
<u>Natural Environment</u> ***'Protect our coastal and unique environment by promoting and engaging in responsible practices and initiatives'***	• Develop and implement responsible environmental policies, practices and initiatives • Support State and Federal Government environmental initiatives as appropriate • Support conservation reserves in the Strzelecki Ranges <u>Indicators of Success</u> ▪ Act on the Environment Strategy ▪ Protection of high conservation value areas within the Strzelecki Ranges

Appendix E “Activities and Initiatives by Team / Program” details activities and initiatives to be funded in the Budget for the 2005/2006 year, and how these will contribute to achieving the strategic objectives specified in the Council Plan.

Appendix F “Key Strategic Activities” isolates the Key Strategic Activities to be undertaken during the 2005/2006 year including relevant performance targets and measures. These are subject to audit at year-end.

2.3 Basis of Budget preparation

Under the Act, Council is required to prepare and adopt an annual budget for each financial year. 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 information required by the Regulations, which support the Act.

The first step in the budget process is for the Officers to refine business plans to address Council Plan objectives, and conduct a series of budget briefing sessions with Council. Council review and approve the annual and longer-term business plans as part of this process. This annual budget report is then collated on behalf of Council to formally 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 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 and a copy submitted to the Minister by 31 August each year.

The 2005/2006 budget, which is included in this report, is for the year 1 July 2005 to 30 June 2006 and is prepared in accordance with the Act and Regulations. The budget includes Standard Statements, these being the budgeted Statements of Financial Performance, Financial Position, Cash Flows and Capital Works. These statements have been prepared for the year ended 30 June 2006 in accordance with Australian Accounting Standards including AAS27, “Financial Reporting by Local Governments”, and other mandatory professional reporting requirements and in accordance with the Act and Regulations. It includes a description of the activities and initiatives to be funded and how they will contribute to achieving the strategic objectives specified in the Council Plan, as well as separately identified Key Strategic Activities and performance targets and measures in relation to each of these. 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 International Financial Reporting Standards (IFRS) that come into effect on July 1 2005 are not expected to have a material impact on the processes involved in preparing annual budgets. Having said that, it is Council's intention over the coming year to refine and realign longer-term financial plans and annual budgets to mirror the IFRS reporting standards.

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 Long Term Financial Strategy (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	6 July
2.	Public notice advising of intention to adopt budget	12 July
3.	Budget available for public inspection and comment	13-26 July
4.	Submissions period closes	26 July
5.	Submissions considered by Council	27 July
6.	Budget presented to Council for Adoption	3 August
7.	Copy of adopted budget submitted to the Minister	4 August

2.5 Significant influences

External influences

In preparing the 2005/2006 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 include:

- Wages growth is projected to be 4.1% per annum for 2005/2006 and beyond. (Commonwealth Bank Economic forecast. Council currently is party to an Enterprise Bargaining Agreement (EBA) that allows for a 3% increase on 1 June 2005 and a further 3% on 1 March 2006
- Projected Consumer Price Index (CPI) increases on goods and services of around 2.75% per annum
- Withdrawal of $0.2 million in National Competition Payments.
- Mandatory EPA Land fill rehabilitation requirements for following 3 years
- Unavoidable cost increases in insurance premiums.
- Rate rebate concessions being given to electricity generating facilities
- Prevailing economic conditions which are expected to remain difficult during the budget period, impacting interest rates.
- Increase in Victoria Grants Commission of funding of $0.2 million, which offsets in excess of $1.0 million reduction in previous two financial years.

Internal influences

As well as external influences, there were also internal influences arising from the 2004/2005 year which have had a significant impact on the setting of the 2005/2006 Budget. These included the cash available and significant amount of projects carried forward, both capital ($0.74 million) and operational expenditure that is tied to grant funds ($0.51 million).

There was also the expected one off benefit of $1.8 million from the proposed sale of the Korumburra Saleyards, of which, a substantial portion of funds ($1.3 million) is to be directed to long-term debt.

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

2.6 Budget Principles

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 / market levels / cost recovery;
- Grants to be based on confirmed funding levels;
- New revenue sources to be identified where possible;
- Service levels to be maintained at 2004/2005 levels with an aim to use less resources with an emphasis on innovation and efficiency;
- New staff proposals to be justified through a business case;
- Contract labour to be minimised;
- New initiatives or projects which are not cost neutral to be justified through a business case, and lifecycle costing analysis;
- Real savings in expenditure and increases in revenue identified in 2004/2005 to be preserved;
- Operating revenues and expenses arising from completed 2004/2005 capital projects such as the leisure centre to be included; and
- No new borrowings.

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 five key areas of:

- Operating budget
- Budgeted cash position
- Capital works budget
- Budgeted financial position
- Budget activities and initiatives

Each of these areas is addressed below.

3.1 Operating budget

	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	Variance $'000
Operating			
Revenue	32,452	35,396	2944
Expenditure	(34,654)	(37,308)	(2,654)
	(2,202)	**(1,912)**	**290**
Capital			
Revenue	1,799	585	(1,214)
Operating surplus (deficit)	**(403)**	**(1,327)**	**(924)**

The Budgeted Statement of Financial Performance forecasts a deficit of $1.33 million for the year ending 30 June 2006, after capital grants, which is a deterioration of $0.92 million relative to 2004/2005. Before capital funding, an operating deficit of $1.91 million is forecast, a decrease of $0.29 million in net operating costs on the 2004/2005 year. Funding for capital works decreases by $1.21 million to $0.59 million. Refer to Section 4. "Analysis of Operating Budget" for a more detailed analysis.

3.2 Budgeted cash position

Cash Inflows(Outflows)	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	Variance $'000
Operating	5,650	3,961	(1,689)
Investing	(6,979)	(2,833)	4,146
Financing	(993)	(1,077)	(84)
Net increase(decrease) in cash held	**(2,322)**	**51**	**2,373**
Cash at beginning of year	5,666	3,344	(2,322)
Cash at end of year	**3,344**	**3,395**	**51**

The Budgeted Statement of Cash Flows shows a net increase in cash resources of $0.05 million for the year ending 30 June 2006. This consists of a $1.69 million decrease in cash generated from operating activities. This is offset by a decreased usage of cash of $4.15 million in investing activities due to the decrease in the 2005/2006 capital works budget. There is an increase in net cash outflow of $0.84 million in financing activities relative to the previous financial year. Overall, total cash and investments are forecast to be $3.40 million as at 30 June 2006, which effectively leaves very little spare working capital capacity, particularly after allowing for cashing up an internal reserve of $2.20 million for long term debt redemption. Refer to Section 5. "Analysis of Budgeted Cash Position" for a more detailed analysis.

3.3 Capital Works Budget

Funding Sources	**Forecast Actual 2004/05 $'000**	**Budget 2005/06 $'000**	**Variance $'000**
External	3,663	4,417	754
Internal	5,180	2,248	(2,932)
Total funding	**8,843**	**6,665**	**(2,178)**
Capital works	(8,843)	(6,665)	(2,178)
Capital surplus (deficit)	**0**	**0**	**0**

The 2005/2006 Budgeted Statement of Capital Works forecasts total capital works of $6.67 million, which is a decrease of $2.18 million over 2004/2005. The funding sources for the capital works program include $4.42 million from external sources such as grants, contributions, and proceeds from sale of assets and $2.25 million from internal sources such as operations and working capital. The capital works program includes incomplete projects from the 2004/2005 year of $0.74 million. Refer to Section 6. "Analysis of Capital Budget" for a more detailed analysis.

3.4 Budgeted Financial Position

	Forecast Actual 30 Jun 05	**Budget 30 Jun 06**	**Variance**
	$'000	**$'000**	**$'000**
Assets & Liabilities			
Net current assets	3,699	2,676	(1,023)
Net non current assets	281,509	309,361	27,852
Net assets	**285,208**	**312,037**	**26,829**
Equity			
Accumulated surplus	120,879	117,799	(3,080)
Reserves	164,329	194,238	29,909
Total equity	**285,208**	**312,037**	**26,829**

The Budgeted Statement of Financial Position shows net assets of $312.04 million as at 30 June 2006, which is a increase of $26.83 million over 2004/05. This is comprised of a $1.02 million decrease in net current assets resulting mainly from the utilising of all available working capital to fund the capital works program, and a $27.85 million increase in net non-current assets also resulting from the proposed capital works program and asset revaluations. Refer to Section 7. “Analysis of Budgeted Financial Position” for a more detailed analysis.

3.5 Budget activities and initiatives

Activities and initiatives
Facilitate Economic Development activity to the value of $2.0 million
Finalisation of Business 4 rezoning in Leongatha
Commence Significant Landscape overlay
Implementation of the Access and Inclusion plan
Develop footpath strategy and program
Better Pools- Toora upgrade
Korumburra Golf Course upgrade
Small town skate park
Tarwin Lower Netball / Tennis court upgrade
Ward initiatives totalling $180,000 to be defined and ratified at the Budget adoption meeting scheduled for 3 August 2005

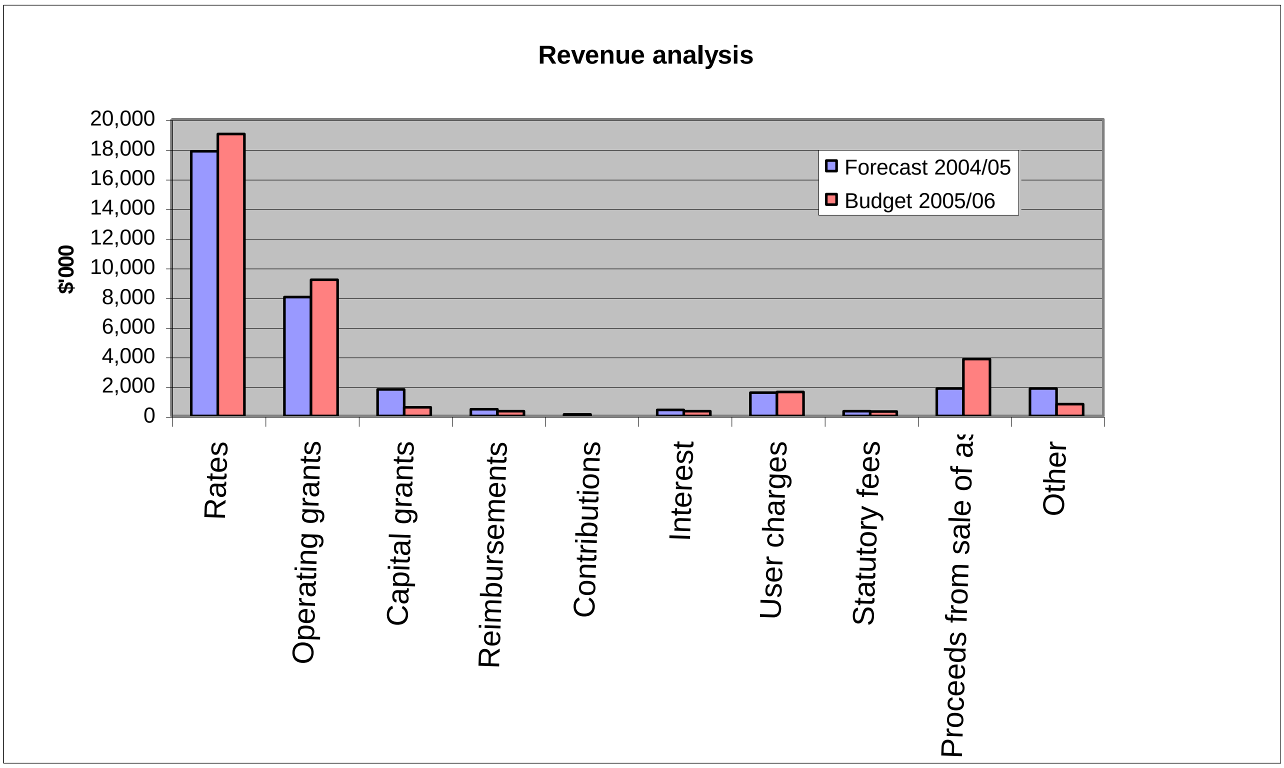
Whilst the 2005/2006 budget has been prepared on the basis of constraint, the Council still needs to fund new community and organisational initiatives if it is to remain innovative and cognisant of the community’s needs. This year’s budget includes a number of activities and initiatives, which will contribute to the achievement of the strategic objectives specified in the Council Plan. Refer to Appendix E “Activities and Initiatives by Team / Program” 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 2005/2006 year. It also includes analysis of Departmental Team's financial performance in a format, which aligns with Council's organisational structure.

4.1 Operating Revenue

Revenue Types	Reference	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	(Unfav) Variance $'000
Rates & charges	4.1.1	17,853	19,014	1,161
Operating grants	4.1.2	8,089	9,171	1,082
Capital grants & contributions	4.1.3	1,799	585	(1,214)
Reimbursements	4.1.4	451	320	(131)
Contributions	4.1.5	40	7	(33)
Interest	4.1.6	407	328	(79)
User charges	4.1.7	1,577	1,620	43
Statutory Fees	4.1.8	324	300	(24)
Proceeds from sale of assets	4.1.9	1,864	3,832	1,968
Other	4.1.10	1,847	804	(1,043)
Total operating revenue		**34,251**	**35,981**	**1,730**



4.1.1 Rates and Charges ($1.16 million increase)

It is projected that general rates and charges income be increased by 6.0% or $1.16 million to $19.01 million. This includes $0.11 million in supplementary rates and special charge rates. Section 10. "Rating Strategy" includes a more detailed analysis of the rates and charges to be levied for 2005/2006.

4.1.2 Operating Grants ($1.09 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 13.4% or $1.09 million compared to 2004/2005. Significant movements in grant and contribution funding are summarised below:

Revenue Types	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	(Unfav) Variance $'000
National Competition Policy payments	182	0	(182)
Community Projects	41	408	367
Economic Development	97	150	53
Road to Recovery	800	1,454	654

The National Competition Payments are no longer available to local government. The payments are being directed to fund national water projects.

Community project funding have increased for the Great Southern Rail Trail by $274,000 and for the Korumburra Golf course $90,000 and Tarwin Lower Netball / Tennis Courts $43,000.

There has been a $530,000 increase in funds for economic development projects relative to the amounts forecast for 2004/2005.

Road to Recovery funding has also increased this coming financial year. It should also be noted that funding has been redirected from capital projects (reseals) to operational projects (re-sheets), which are expensed in the Income Statement.

4.1.3 Capital Grants and Contributions ($1.21 million decrease)

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 decreased by 67.5% or $1.21 million compared to 2004/2005.

$0.2 million of this is due to redirecting Road to Recovery funding from capital projects to operational projects as discussed above. Another material reduction is due the completion of the Leisure centre project, which in 2004/2005 had $1.3 million capital grant allocation.

There are capital funds expected in 2005/2006 for Tarwin Lower bike path ($122,000) and Better Pools-Toora ($228,000).

Section 6. “Analysis of Capital Budget” includes a more detailed analysis of the grants and contributions that are expected to be received during the 2005/2006 year.

4.1.4 Reimbursements ($131,000 decrease)

Aside for the reduction of $140,000 for Emergency works reimbursements there are no significant movements for reimbursements.

4.1.5 Contributions ($33,000 decrease)

Aside from the reduction of $25,000 for Gippsland special needs transport, there are no significant movements for contributions.

4.1.6 Interest Revenue ($79,000 decrease)

Interest revenue includes interest on investments and rate arrears. Although the Reserve Bank of Australia economic forecasts indicate that there is likely to be some upward pressure on interest rates in the budget period, interest on investments is forecast to decline by $79,000 compared to 2004/2005. This is mainly due to the expectation that business units will continue to increase their adherence to planned work programs. Interest on unpaid rates is forecast to remain stable relative to 2004/2005 following an analysis of the expected level of unpaid rates during 2005/2006.

4.1.7 User Charges ($43,000 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 in line with expected inflationary trends over the budget period to maintain parity of user charges with the costs of service delivery.

The increase in user charges for 2005/2006 is marginal, mainly due to the offsetting effect of lost income as a result of the proposed sale of the Korumburra Sale Yards.

Appendix G, 'Fees and Charges' details all User Charges.

4.1.8 Statutory Fees ($24,000 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.

Aside from the expected downturn in statutory and strategic planning fees, there are no significant movements for statutory fees.

Appendix G, 'Fees and Charges' details all statutory fees.

4.1.9 Proceeds from Sale of Assets ($1.97 million increase)

Proceeds from the sale of Council assets of $3.83 million for 2005/2006 relate mainly to the planned cyclical replacement of part of the plant and vehicle fleet ($1.66 million) and sale of properties including surplus land throughout the municipality ($0.37 million). There is a one off spike of $1.8 million for the proposed Korumburra Sale Yard sale

In 2004/2005 the forecast income generated from land sales was $80,000.

4.1.10 Other Revenue ($1.04 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.

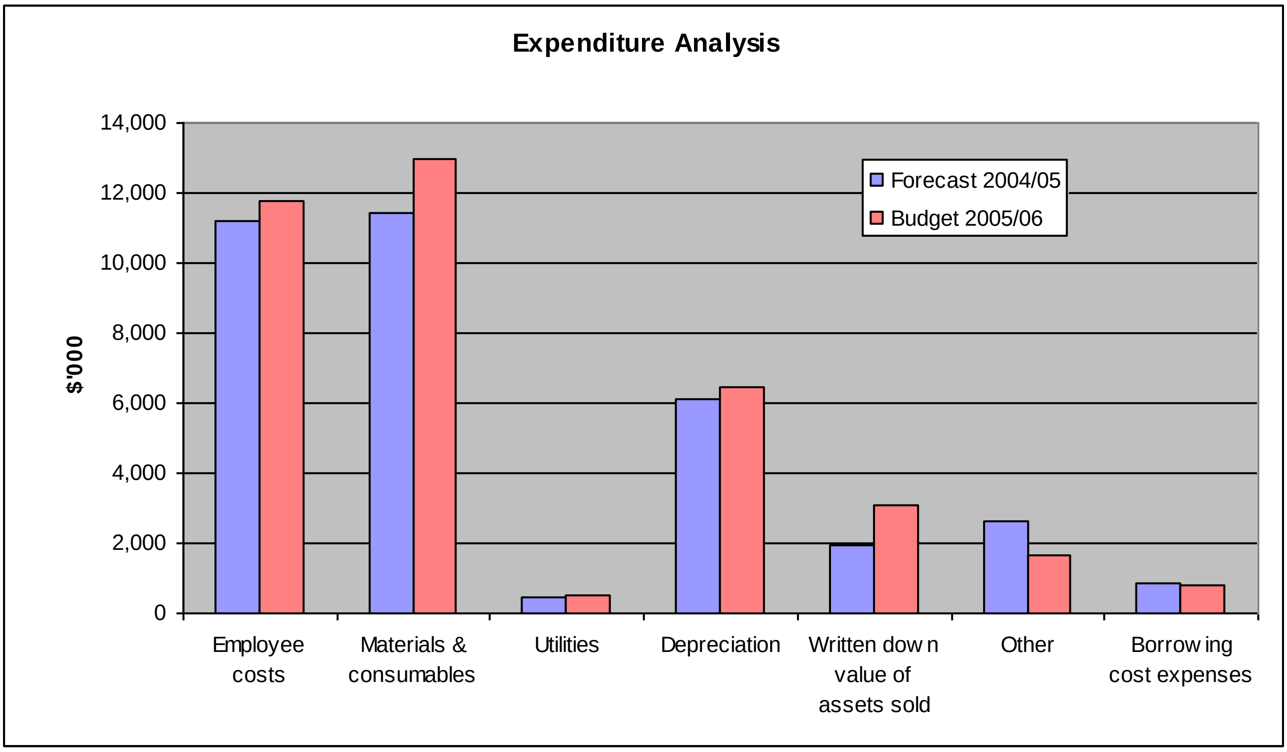
Other revenue is projected to decrease by 56.5% or $1.04 million in 2005/2006. A main cause for the decrease is $0.2 million less income from private works. The reduction has been purposefully made so as to not place and over reliance on private works income to prop up the budget.

A significant one off variation is reducing (writing back) in 2004/2005 the amount ($0.5 million) allowed for as a provision the previous financial year (2003/2004) for future costs that were expected for landfill rehabilitation works.

4.2 Operating Expenditure

Expenditure Types	Reference	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	(Unfav) Variance $'000
Employee costs	4.2.1	11,224	11,783	(559)
Materials and consumables	4.2.2	11,412	12,960	(1,548)
Utilities	4.2.3	478	507	(29)
Depreciation	4.2.4	6,142	6,484	(342)
WDV assets sold	4.2.5	1,919	3,107	(1,188)
Other expenses	4.2.6	2,609	1,670	939
Borrowing cost expenses	4.2.7	870	797	73
Total operating expenditure		**34,654**	**37,308**	**(2,654)**

Total operating expenses are forecast to increase by 7.6% or $2.65 million compared to 2004/2005. If one factors out depreciation and written down value of assets sold the increase is $1.12 million or 4.2%.



4.2.1 Employee Costs ($0.56 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 than 5.0% or $0.56 million compared to 2004/2005.

It should also be noted that the 2005/2006 budgeted employee costs takes into account :

- Council's Enterprise Bargaining Agreement (EBA) and banding and contract staff increments in 2005/2006 as well as the flow on effect to oncost expenses.
- Increases in staff resources in the planning, as a result of increased demand for services,

It should be noted that some staff costs are actually costed to the Balance Sheet as opposed to being expensed in the Income Statement. On a program budget basis (combining employee costs employee costs incurred in the Income Statement and capital works program) the total employee costs budgeted for 2005/2006 is $12.25 million ($11.67 million forecast for 2004/2005)

4.2.2 Materials & Consumables ($1.55 million increase)

Materials and consumables are forecast to increase by 13.6% or $1.55 million compared to 2004/2005. The variation is mainly to the 'one off' expenses that are to be incurred in 2005/2006.

These 'one off' expenses include Community projects such as the Great Southern Rail Trail, Korumburra Golf course, Tarwin Lower Netball / tennis courts that amount to $0.36 million. There are further 'one off' expenses in planning such as the Landscape overlay and Urban strategy that amount to $0.2 million.

A recurrent cost increase that will continue into future years as well are costs associated with the Leisure centre operation. The amount budgeted in 2005/2006 is $0.26 million higher than what is projected for 2004/2005. It should be noted that the Leisure centre opened for business mid way in 2004/2005.

4.2.3 Utilities ($29,000 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 6.1% or $29,000 compared to 2004/2005. Price increases in these areas are largely beyond the control of Council.

4.2.4 Depreciation ($0.34 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 $0.34 million for 2005/2006 is predominantly due to the revaluation of the asset class ‘buildings. The value of buildings increased by $33 million due to being valued at ‘fair value’ rather than market value as was done previously. Fair value recognizes in the Balance Sheet the true replacement cost of the asset.

This in turn significantly increases the depreciation expense that is expensed to the Income Statement. The assets at some future point in time have to be refurbished or replaced, so it is important that the depreciations’ cost is both bought to account and funded.

The completion of the 2005/2006 capital works program and the full year effect of depreciation on the 2004/2005 capital works program also impacts upon the depreciation charges. Refer to section 6. “Analysis of Capital Budget” for a more detailed analysis of Council’s capital works program for the 2005/2006 year.

4.2.5 WDV of Assets Sold ($1.19 million increase)

The written down value of assets sold is the cost of assets intended to be sold, less any accumulated depreciation. The increase of $1.19 million is predominantly due to the value of the Korumburra Sale Yard being recognized in 2005/2006.

4.2.6 Other Expenses ($0.94 million decrease)

Other expenses relate to a range of unclassified items including contributions to community groups, advertising, insurances, motor vehicle registrations, library service and other miscellaneous expenditure items.

Other expenses are forecast to decrease by 36% or $0.94 million compared to 2004/2005, due mainly to having to recognise a $1.03 million cost in 2004/2005 for de-recognising building assets as part of the revaluation process associated with buildings.

4.2.7 Borrowing Cost Expenses (73,000 decrease)

Borrowing cost expenses represent the interest cost associated with borrowed funds. The costs are forecast to decrease in 2005/2006 due to the increasing portion of loan repayments being actually allocated to principal repayments.

4.3 Organisational analysis

The following is a summary of the Operating Budget by team in accordance with Council's organisational structure. It shows:

- where Council's rates and charges will be directed
- where significant changes in departmental net costs are expected

Team	Reference	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	Net Cost Increase (Decrease) $'000
Community Services	4.3.1	234	240	6
Development	4.3.2	1,575	1,902	327
Engineering	4.3.3	1,293	1,245	(47)
Executive	4.3.4	2,366	2,492	126
Finance	4.3.5	959	1,144	185
Governance	4.3.6	475	593	118
Information	4.3.7	980	953	(27)
Operations	4.3.8	4,131	4,023	(108)
Planning	4.3.9	638	818	180
Other non-attributable[1]	4.3.10	7,404	7,517	112
Operating deficit before rates & capital revenue		**20,055**	**20,927**	**(872)**
Funded by:				
Rates & charges	Section 10	17,853	19,014	1,161
Capital grants & contributions	4.3.11	1,799	584	(1,215)
Total		19,652	19,598	(54)
Operating surplus (deficit)		**(403)**	**(1,329)**	**(926)**

1. Includes grants commission, depreciation, major maintenance, proceeds and WDV of assets sold, loan management, de-recognition of assets and abnormal items.

4.3.1 Community Services ($6,000 increase)

This includes aged & disabled services, community programs, community services management and health & community safety. There are no significant movements between the 2004/2005 and 2005/2006 years.

4.3.2 Development ($327,000 increase)

Development includes the following programs; community building, development management, economic development and tourism, local laws, and recreation. There is a net increase in costs of $105,000 to the community building program relative to last year, as well as $290,000 to recreation, which includes the operational costs for the new leisure centre. There is a net decrease of costs of $90,000 associated with Economic development and tourism.

4.3.3 Engineering ($47,000 decrease)

Engineering include community projects, engineering management, engineering services, property and waste. The net cost of the Engineering team is expected to be $47,000 less than the previous year.

There are a number of contributing factors including $0.4 million additional costs to be incurred on community projects, $100,000 on asset management and $89,000 on waste management in 2005/2006. The increases in costs are offset by the $0.66 million adjustment for waste management provisions that were taken up in the accounts in 2004/2005.

4.3.4 Office of the Chief Executive ($126,000 increase)

Office of the Chief Executive includes Executive services, Business Excellence, and Communications & Investments. The net cost of the Communications & Investments program is budgeted to increase by $56,000 compared to 2004/2005. There is a $41,000 cost increase in Executive services, as well as $30,000 associated with Business Excellence.

4.3.5 Finance ($185,000 increase)

Finance includes accounts, financial management, rates & valuations and risk management. Aside from the loss of $180,000 from National Competition Payment, there are no significant variances between the 2004/2005 and 2005/2006 years for Finance.

4.3.6 Governance ($118,000 increase)

Governance includes Governance Operations, Customer service and Coal Creek. There are additional costs of $60,000 for elections, $13,000 for internal audit and $20,000 for Gippsland Group Training.

4.3.7 Information ($27,000 decrease)

There is a $27,000 favourable variance between the 2004/2005 and 2005/2006 years for Information services.

4.3.8 Operations ($108,000 decrease)

Operations include Operations management, local roads, Parks and gardens, plant and private works programs. There has been an increase in net costs of $60,000 for Operations management, and a $80,000 increase in Parks and Gardens.

There has been an additional $225,000 to be spent on roads, which was funded by a favourable increase in grant funding and reimbursements of $490,000 relative to the previous year. It should be noted that depending on the type of expenditure incurred on infrastructure assets it is either expensed in the Income Statement or capitalised to the Balance Sheet. There is a $0.79 million increase in the capital works on road related assets in 2005/2006, relative to the previous year.

4.3.9 Planning ($180,000 increase)

The increase in net costs in Statutory and Strategic planning is for additional project work such as the Significant Overlay Study and the Urban Design Strategy.

4.3.10 Other Non-Attributable ($112,000 increase)

Other Non-Attributable relates to income and expenditure, which cannot be attributed directly to Council departments and are overseen by the Corporate Services department. For the purposes of this analysis other non-attributable includes Victorian Grants Commission allocations, depreciation, net profit/loss on sale of assets, corporate overheads, de recognition of assets and abnormal items. Reductions in depreciation and the written down value of assets sold have been offset by an increase in Victoria Grants Commission funding.

4.3.11 Capital grants & contributions ($1.22 million decrease)

The major contributor to this reduction is that in 2004/2005 Council received a $1.32 million capital grant for the Leisure centre. Also, Road to Recovery funding previously allocated to capital projects are now allocated to operational expenditure.

5. Analysis of budgeted cash position

This section of the budget report analyses the expected cash flows for the 2005/2006 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 2004/05 $'000**	**Budget 2005/06 $'000**	**Variance $'000**
Operating Activities	5.1.1			
Receipts		32,801	32,149	(652)
Payments		(27,151)	(28,188)	(1,037)
Net cash inflow (outflow)		**5,650**	**3,961**	**(1,689)**
Investing Activities	5.1.2			
Receipts		1,864	3,832	1,968
Payments		(8,843)	(6,665)	2,178
Net cash inflow (outflow)		**(6,979)**	**(2,833)**	**4,146**
Financing Activities	5.1.3			
Receipts		16	4	(12)
Payments		(1,009)	(1,081)	(72)
Net cash inflow (outflow)		**(993)**	**(1,077)**	**(84)**
Net increase (decrease) in cash held		**(2,322)**	**51**	**2,373**
Cash at beginning of year		5,666	3,344	(2,322)
Cash at end of year	5.1.4	**3,344**	**3,395**	**51**
Represented by:				
Reserve cash and investments				
- Statutory		0	0	0
- Discretionary		450	2,203	1,753
-Working capital		2,894	1,192	(1,702)
	5.2	**3,344**	**3,395**	**51**

5.1.1 Operating Activities ($1.69 million decrease)

The increases in cash inflows from operating activities are due mainly to a $1.16 million increase in Rates and charges revenue and Operating grants ($1.15 million) but this is offset by reduced capital grants ($1.21 million), and further is offset by increased payments to Suppliers ($1.51 million) and employee costs ($0.56 Million).

5.1.2 Investing Activities ($4.15 million decrease)

The $4.15 million decrease in net payments for investing activities is due to receiving additional 'one off' income of $1.97 million in capital sales as well as decrease in capital expenditure of $2.18 million. The reduction in capital expenditure is due in part to the major Leisure centre project being completed in 2004/2005 and also because there are anticipated to be less uncompleted projects carried over from the previous year.

5.1.3 Financing activities ($84,000 increase)

Financing activities includes the principal component of loan repayments for the year. For 2005/2006 the total of principal repayments increases to $1.08 million.

5.1.4 Cash at end of the Year ($51,000 increase)

Overall, total cash and investments are forecast to stay at similar levels to that of 2004/2005. The contribution of cash from operating activities has provided funds for both the investing and financing activities. The balance is expected to be $3.40 million as at 30 June 2006, a very similar level as the previous year. Of this, $2.20 million has been reserved for future loan redemption. When making an allowance for the loan redemption funding, this puts Council 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 'flat lining' in the capital works program from 2005/2006 onwards to 2008/2009 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, 2006 it will have cash and investments of $3.40 million, which has been earmarked as follows:

- **Working capital ($1.19 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 ($2.20 million.**) - An allocation of $2.20 million has been budgeted to an 'internal' reserve funds for the repayment of long term debt. Additional annual allocations of funds will be put to a reserve up until 2007/2008 principally to build up a sinking fund to offset against a $4.5 million interest only loan that matures in that financial year. The allocation of $1.3 million in 2005/2006 is contingent on the sale of the Korumburra Sale Yard.

  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 2005/2006 year and the sources of funding for the budget.

6.1 Funding Sources

Sources of Funding	Reference	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	Variance $'000
External				
Grants and contributions	6.1.1	1,799	585	(1,214)
Borrowings	6.1.2	0	0	0
Proceeds on sale of assets	6.1.3	1,864	3,832	1,968
Sub total		3,663	4,417	754
Internal				
Operations	6.1.4	3,851	1,508	(2,343)
Working capital	6.1.5	1,329	740	(589)
Sub total		5,180	2,248	(2,932)
Total funding sources		**8,843**	**6,665**	**(2,178)**

6.1.1 Grants and contributions ($1.21 million decrease)

Capital grants and contributions include all monies received from State, Federal and community sources for the purposes of funding the capital works program. There is a significant reduction in grants and contributions due to the completion of the Leisure Centre. Grants will be received for the following community projects, Tarwin Lower Bike path, ($122,000), Toora Pool Upgrade ($228,000), Small town Skate park ($51,000), and Fish Creek football club ($32,000).

6.1.2 Borrowing (nil movement)

There are no borrowing's budgeted for in the 2005/2006 financial year.

6.1.3 Proceeds from sale of assets ($1.97 million increase)

Proceeds from sale of assets include motor vehicle sales in accordance with Council's fleet renewal policy of $1.3 million and sale of property of $2.2 million, which includes the Korumburra Sale Yard.

6.1.4 Operations (2.34 million decrease)

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 $1.51 million will be generated from operations to fund the 2005/2006 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 ($0.59 million decrease)

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. It is forecast that $0.74 million will be available from the 2004/2005 year to fund the 2005/2006 capital works program.

6.2 Capital works

Capital Works Areas	Reference	Forecast Actual 2004/05 $'000	Budget 2005/06 $'000	Variance $'000
Works for 2005/2006				
Roads	6.2.1	1,601	2,011	410
Footpaths	6.2.2	71	406	335
Kerb & Channel	6.2.3	0	0	0
Bridges	6.2.4	78	135	57
Drains & Culverts	6.2.5	10	69	59
Carparks	6.2.6	0	0	0
Other Structures	6.2.7	426	467	41
Buildings	6.2.8	3,435	623	(2,812)
Land	6.2.9	0	20	20
Plant & Equipment	6.2.10	3,030	2,752	(278)
Furniture & Equipment	6.2.11	192	182	(10)
Total capital works		**8,843**	**6,665**	**(2,178)**
Works for 2005/2006 represented by:				
Capital expenditure				
New assets		3,670	1,537	2,133
Asset renewals		5,173	5,128	(45)
Total capital works		**8,843**	**6,665**	**(2,178)**
Works carried forward*				
Works carried forward from previous year	6.2.12	2,040	740	1,300

6.2.1 Roads ($2.01 million)

For the 2005/2006 year, $2.01 million will be expended on road projects. The more significant projects include reseals ($1.08 million), Kardella Road ($105,000), Loch Poowong Ferriers ($150,000) and Outtrim Bridge Road ($280,000).

6.2.2 Footpaths ($0.41 million)

For the 2005/2006 year, $0.41 million will be expended on footpaths This includes the Tarwin Lower bike track project ($0.21 million). The balance ($02. million) is allocated specifically for constructing footpaths. .

6.2.3 Kerb & Channel ($nil)

For the 2005/2006 year, no specific funds have been allocated to kerb & channel works

6.2.4 Bridges ($0.14 million)

For the 2005/2006 year, $0.14 million will be expended on bridges. This includes the Outtrim bridge ($120,000), and the Cooks De Somerville’s bridge ($15,000).

6.2.5 Drains & Culverts ($69,000)

For the 2005/2006 year, $69,000 will be expended on drains & culverts. A significant project is the Loch Poowong Culvert construction ($50,000), and along Kardella road ($19,000).

6.2.6 Carparks ($nil)

For the 2005/2006 year, no funds have been allocated to carparks.

6.2.7 Other structures ($0.47 million)

For the 2005/2006 year, $0.47 million will be expended on other structures. The more significant projects include the Koonwarra landfill ($110,000), Small towns skate park ($91,000), and Foster Showground Regional Park ($40,000). The $180,000 allocated to Korumburra is contingent on the Korumburra Sale Yard being sold.

6.2.8 Buildings ($0.62 million)

For the 2005/2006 year, $0.62 million will be expended on buildings. The more significant projects include the Toora Pool upgrade and refurbishment ($0.34 million), Leongatha Hall ($80,000), and to complete the Foster Stockyard Gallery upgrade ($79,000).

6.2.9 Land ($20,000)

For the 2005/2006 year $20,000 has been allowed for sundry land purchases (20,000).

6.2.10 Plant & Equipment ($2.75 million)

This predominantly relates to ongoing cyclical replacement of the plant and vehicle fleet ($2.75 million).

6.2.11 Office Furniture & equipment ($0.18 million)

This predominantly relates to ongoing cyclical replacement of computer related equipment ($0.18 million).

6.2.12 Carried forward works ($0.74 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 2004/2005 year it is forecast that $0.74 million of capital works will be incomplete and be carried forward into the 2005/2006 year. The more significant projects include the Tarwin Lower bike track ($0.21 million), and the Koonwarra Landfill ($0.11 million).

7. Analysis of budgeted financial position

This section of the budget report analyses the movements in assets, liabilities and equity between 2004/2005 and 2005/2006.

7.1 Budgeted Statement of Financial Position

	Reference	Forecast Actual 30 Jun 05	Budget 30 Jun 06	Variance
		$'000	**$'000**	**$'000**
Current				
Assets	7.1.1	8,178	7,025	(1,153)
Liabilities	7.1.2	(4,479)	(4,349)	130
Net current assets		**3,699**	**2,676**	**(1,023)**
Non Current				
Assets	7.1.3	295,780	322,292	26,512
Liabilities	7.1.4	(14,271)	(12,931)	1,340
Net non current assets		**281,509**	**309,361**	**27,852**
Net assets		**285,208**	**312,037**	**26,829**
Equity	7.1.5			
Accumulated surplus		120,879	117,799	(3,080)
Reserves		164,329	194,238	29,909
Total equity		**285,208**	**312,037**	**26,829**

7.1.1 Current Assets ($1.15 million decrease)

The current assets are projected to remain at very similar levels to that of 2004/2005, including the level of cash and investments, after making an allowance for $1.29 million being recognized as a current asset in 2004/2005 for Land held for resale (Korumburra Sale Yard) . A more detailed analysis of this change is included in section 5. "Analysis of budgeted cash position". Rate and other debtors are not expected to change significantly.

7.1.2 Current Liabilities ($130,000 decrease)

There is a small decrease in current liabilities (that is, obligations that council must pay within the next 12 months).

7.1.3 Non Current Assets ($26.51 million increase)

The increase in non-current assets is due to the net result of the capital works program ($6.67 million), the depreciation of all non-current assets with the exception of land ($6.48 million) the written down value of property, plant and equipment sales, ($3.11 million) and revaluation increments ($28.16 million). Long term debtors relating to loans to community organisations are expected to reduce marginally by $4,000.

7.1.4 Non Current Liabilities ($1.34 million decrease)

The decrease in movements in non-current liabilities is due primarily to reduction of the non current portion of borrowings by $1.08 million.

7.1.5 Equity ($26.83 million increase)

The increase in the accumulated surplus is due to the forecast operating surplus of $26.83 million after allowing for a budgeted net increase in the asset revaluation reserve of $28.16. million. The net result prior to recognizing revaluation increments is budgeted to be a $1.33 million loss

In addition to this change, an amount of $1.75 million will be transferred from the accumulated surplus to a reserve. This reflects the allocation of funds to an investment reserve to apply against long term borrowings in 2007/2008, in particular against a $4.5 million interest only loan that requires to be re-financed. 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 2006 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 2005/2006 will be at similar levels to that of previous years.
- Trade creditors and other creditors and debtors to remain consistent with 2004/2005 levels.
- Proceeds from the sale of property in 2005/2006 will be received in full in 2005/2006.
- 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 $1.08 million
- Total capital expenditure to be $6.67 million.
- A total of $1.75 million to be transferred from accumulated surplus to reserves, specifically to fund the repayment of long term borrowings in 2007/2008.
- A net increase in the Asset revaluation reserve of $28.16 million as a result of forthcoming infrastructure asset revaluations.

8. Impact of current year on 2005/2006 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 2005/2006 budget.

8.1 Operating performance

	Budget 2004/05 $'000	Forecast Actual 2004/05 $'000	Variance $'000
Operating			
Revenue	31,858	32,452	594
Expenditure	(33,486)	(34,654)	(1,168)
	(1,628)	**(2,202)**	**(574)**
Capital			
Revenue	2,608	1,799	(809)
Operating surplus (deficit)	**980**	**(403)**	**(1,383)**

The forecast Operating Performance for the year ending 30 June 2005 is a deficit before revenue relating to capital of $2.20 million, which is $0.57 million unfavourable compared to the budgeted deficit of $1.63 million. After recognizing revenue related to capital expenditure, the operating deficit is $0.40 million, which is $1.38 million unfavourable compared to the budget.

The unfavourable variation is predominantly due to bringing to account in the 2004/2005 year increased depreciation costs of $1.06 million in relation to revaluing the buildings class of assets, as well as the de-recognition of building assets to the value of $1.03 million.

The favourable operating variances are employee costs ($0.2 million) and materials and contractors ($0.6 million).

These variances have been taken into account and reflected in the 2005/2006 budget.

8.2 Cash performance

	Budget 2004/05 $'000	Forecast Actual 2004/05 $'000	Variance (Outflow) $'000
Cash Inflows (Outflows)			
Operating	5,217	5,650	433
Investing	(7,591)	(6,979)	612
Financing	(993)	(993)	(0)
Net increase (decrease) in cash held	**(3,367)**	**(2,322)**	**1,045**
Cash at beginning of year	5,471	5,666	195
Cash at end of year	**2,104**	**3,344**	**1,240**

The forecast cash performance for the year ending 30 June 2005, is a net decrease in cash of $2.32 million, which is $1.05 million favourable compared to the budgeted decrease of $3.37 million. This is due to a favourable operational outcome of $0.43 million and delays in the capital works program, which is not expected to be achieved for the 2004/2005 year.

Overall, total cash and investments are forecast to be $3.34 million as at 30 June 2005. The favourable variance of $1.24 million will be used to fund the incomplete capital works to be carried forward into the 2005/2006 year of $0.74 million. These variances have been reflected in the 2005/2006 budget.

8.3 Reconciliation of cash and operating results

	Budget 2004/05 $'000	Forecast Actual 2004/05 $'000	Variance $'000
Net surplus (deficit) from operations	**(980)**	**(403)**	**(1,383)**
Depreciation	5,087	6,142	1,055
Written down value of assets sold	2,001	1,919	(82)
Repayment of borrowings	(1,009)	(1,009)	0
EPA Landfill provision	(765)	(600)	165
Capital expenditure	(9,719)	(8,843)	876
Committee Loans paid	16	16	0
Loan Income	0	0	0
AAS LSL & A/L	42	42	0
Net movement in current assets and liabilities	0	414	414
Net cash outflow	**(3,367)**	**(2,322)**	**1,045**

The reconciliation between the operating result and net cash flows for the budget and forecast actual shows the operating result being unfavourable ($1.38 million), whilst the net cash outflow has in fact a $1.05 million favourable outcome relative to budget. The main causes of these variations are depreciation, ($1.06 million) and capital expenditure ($0.88 million)

8.4 Capital performance

	Budget 2004/05 $'000	Forecast Actual 2004/05 $'000	Variance $'000
Externally funded	4,736	3,663	1,073
Internally funded	4,983	5,180	(197)
Total capital works	**9,719**	**8,843**	876

The forecast capital performance for the year ending 30 June 2005 shows that the budgeted capital works program for the 2004/2005 year will not be achieved with a resultant variance of $0.88 million. The variance is due to a number of projects being behind schedule, including Tarwin Lower bike track ($0.21 million), Koonwarra Landfill

($0.11 million), and Foster Stockyard Gallery ($70,000). Due to these projects running behind schedule, it is forecast that $0.74 million of capital works projects will need to be carried forward and completed in the 2005/2006 year. The funding for these projects will come from unspent internal sources.

These variances have been reflected in the 2005/2006 budget.

8.5 Matters significant to the 2005/2006 budget

As a result of the variances between the forecast actual and budgeted results for the 2004/2005 year, the following matters will significantly influence the preparation of the 2005/2006 budget:

- Expected closing cash position $3.34 million.
- The value of capital projects from the 2004/2005 year not yet completed and carried forward into 2005/2006 ($0.74 million)
- The value of operational projects that is tied to grant funds from the 2004/2005 year not yet completed and carried forward into 2005/2006 ($0.51 million)
- The enactment of the Road Management Act 2004 removing the defence of non-feasance on major assets such as roads.

9. Long Term Financial Strategy

9.1 Plan development

Council is required by the Act to prepare a Strategic Resource Plan covering both financial and non-financial resources, for at least the next four financial years to support the Council Plan. The Act also requires 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 2005/2006 to 2014/2015 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 17 March 2004.

The Strategic Resource Plan (SRP), is effectively a subset of the Long Term Financial Plan and also takes the objectives and strategies as specified in the Council Plan and expresses them in financial terms for the next five years. The key objective, which underlines the development of the SRP, is financial sustainability in the medium term, whilst still achieving Council's strategic objectives as specified in the Council Plan. The key financial strategies, which underpin the Long Term Financial Plan, and SRP are:

1. ***That South Gippsland Council target to achieve viable operational results in the Statement of Financial Performance within the next five financial years and consistent viable results thereafter, and that this be documented in the Strategic Resource Plan and Long Term Financial Plan.***
2. ***That the Working Capital Ratio of South Gippsland Shire Council in proposed budgets and forward financial plans be targeted not to fall below 2 to 1.***
3. ***That budgeted transfers to reserves for future capital expenses only be made if matched by an equivalent budgeted surplus in the Statement of Financial Performance so as to preserve the accumulated surplus position of the Council.***
4. ***That the Budgeted 'cash at the end of year' position be targeted to be in the vicinity of $1.5 to $2.0 million in annual and forward financial plans and subject to ongoing financial analysis of budgeted cash inflows and outflows.***
5. ***That capital expenditure on asset renewal projects be given priority over capital expenditure on new assets (upgrades & extensions) until the sustainability index consistently exceeds 95%.***
6. ***That Council only consider borrowing for new capital projects only after at minimum its debt levels are below 25% of Rate revenue as well as at minimum consistent breakeven or surplus operating results are being achieved in Statements of Financial performance.***

7. ***That any new projects that require loan funding be considered only if the projects will have proven cash flows in future periods to 'repay' the cash outlays required in the initial periods and / or that the capital evaluation guidelines be used to evaluate costing impacts on the forward budgets.***
8. ***That wherever possible any material favourable budget variations realised in a given financial year be specifically quarantined and allocated to a loan reserve (unless required to finance projects deemed as 'unavoidable and referred to and approved by Council') so as to be allocated against the interest only loan that is due to be refinanced in 2007/2008.***
9. ***That Council consider the most appropriate rating strategy to provide adequate funds to:***
   - ***Achieve a breakeven operating result in Statement of Financial performances***
   - ***Achieve a sustainable cash flow***
   - ***Fund capital renewal projects***

   in both the annual budget and in the long term financial plan
10. ***That Council consider the most appropriate fees and charges strategy so that adequate funds are recovered to offset operational expenses in annual and future budgets.***

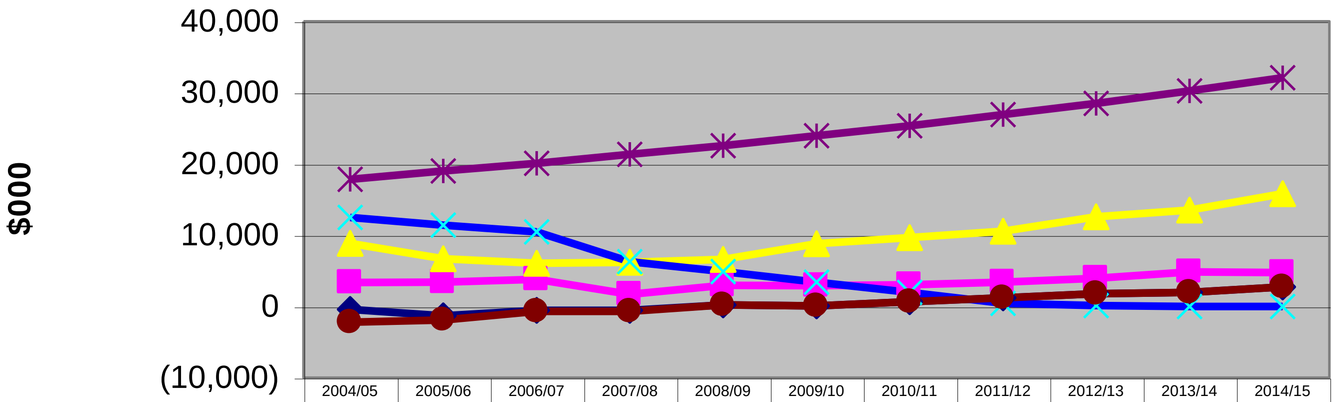
The resulting Long Term Financial Plan is reviewed and updated annually through a rigorous process of consultation with Council service providers followed by a detailed sensitivity analysis to achieve these key financial objectives. The key components of the Plan are:

- Assessment of Council's current financial position
- Key objectives and assumptions
- Analysing key financial statements
- Service delivery
- Rating strategy
- Borrowing strategy
- Infrastructure strategy
- Benchmarking current plan to previous plans

The following table summaries the key financial indicators for the next five years (the graph is over a 10 year period) as set out in the Long Term Financial Plan.

Indicator	Budget 2005/06	Forecast 2006/07	Forecast 2007/08	Forecast 2008/09	Forecast 2009/10
	$'000	$'000	$'000	$'000	$'000
Operating surplus/(deficit)	(1,327)	(546)	(550)	226	50
Operating result excluding capital funding	(1,912)	(686)	(690)	226	50
Cash from operations	3,961	5,067	5,954	7,073	7,906
Cash increase/(decrease)	51	419	(2,139)	1,270	(24)
Cash and investments	3,395	3,814	1,675	2,945	2,921
Borrowings outstanding	11,418	10,438	6,294	4,870	3,398
Depreciation	6,484	6,679	7,286	7,557	8,122
Capital expenditure	6,665	6,047	6,195	6,607	8,798
Working capital	2,676	(1,269)	812	2,634	2,759
Net worth	312,037	311,491	339,978	343,163	372,463

Long Term Projections Model



	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Operating Result	(403)	(1,327)	(546)	(550)	226	50	643	1,192	1,763	1,941	2,711
Cash	3,344	3,395	3,814	1,675	2,945	2,921	3,039	3,421	3,927	4,817	4,757
Capital Expenditure	8,843	6,665	6,047	6,195	6,607	8,798	9,670	10,555	12,590	13,529	15,803
Borrowings	12,498	11,418	10,438	6,294	4,870	3,398	1,975	452	135	0	0
Rate Income	17,853	19,014	20,089	21,330	22,553	23,962	25,343	26,920	28,478	30,243	32,090
P&L before Capex Funding	(2,202)	(1,912)	(686)	(690)	226	50	643	1,192	1,763	1,941	2,711

9.2 Key outcomes

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

- **Service Delivery** – Services levels established for 2005/2006 have been maintained throughout the forward budget. The Council is however committed over the 2005/2006 financial year to identify savings in non core services and overhead costs. Any quantifiable recurrent savings that are recognised will be modelled into the Long Term Financial Plan.

  The longer term objective is to achieve surplus results before recognising capital grants and contributions. In order to achieve this, the short term objective is to achieve consistent and increasing operating surplus results. It should be noted, that in 2005/2006 it is forecast that there will be deficit result even after capital funding.

- **Rating Strategy (section 10) –** Rate increases have been modelled at 3.5% above projected CPI in the current and forward budgets. The objective being, that the additional funds generated be directed to in the first instance to producing viable operating results as well as for reducing long term debt. In the longer term the increasing surplus results are primarily targeted to improve the liquidity and working capital position of Council and then to provide additional funding for capital renewal projects.

- **Borrowing Strategy (section 11) –** Borrowings (including Hire Purchase commitments) are forecast to reduce from $12.50 million to $3.4 million over a five year period. This includes re-financing 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 sustainability index is anticipated to 'flat line' up until 2008/2009 whilst a concerted effort is directed at producing sustainable and consistent surplus operating results as well as addressing long term debt. From 2009/2010 onwards it is modelled that significant additional funds can in fact be directed to capital renewal projects.

- **Financial Sustainability (section 5) –** Cash and investments is forecast to be particularly low in 2007/2008 before trending back up to what is deemed to be a satisfactory level in 2008/2009 and to be in a position of strength by 2011/2012. Although the cash levels will not be at what is deemed as a desirable level for a number of years, it is considered to be a situation that is manageable in the short to medium term.

The objective of quantifying in a very pragmatic way the financial circumstances of the Shire is to reinforce the financial challenges that Council is confronted with. The 2008/2009 financial year is the first year in nearly a decade in which the Council looks like actually achieving a net operating surplus. The Long Term Financial Plan clearly documents a strategic plan of attack that is required to be undertaken to achieve longer term financial sustainability.

9.3 Non-financial resources

In addition to the financial resources to be consumed over the planning period, Council will also consume non-financial resources, in particular human resources.

The range of services undertaken by Council involves the abilities, efforts and competencies of 282 staff of which 151 are full time, 86 work part time and 45 are casual staff. The skill base of Council's workforce is diverse, with staff holding qualifications in areas such as accounting, aged care, building, civil engineering, health care, planning and other fields.

The Local Authorities Award and the South Gippsland Shire Council Enterprise Bargaining Agreement 2003 (EBA) govern the employment of Council staff.

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 53% 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 2005/2006 operating position is predicted to be significantly impacted by unavoidable increases in depreciation costs, coupled with reductions in government funding such as the National Competition Payment. It will therefore be necessary to achieve future revenue growth whilst containing costs in order to achieve and maintain a breakeven operating results over the next four years as set out in the Long Term Financial Plan. The contribution from operations towards capital investment for the 2005/2006 year is obviously still inadequate. 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 on infrastructure assets is $3.4 million short of optimum renewal expenditure levels in the 2005/2006 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. Council is committed to minimise the rate rise in 2005/2006.

General rates and charges overall will in 2005/2006 raise a total rate of $19.01 million, including supplementary rates and Special Charge Scheme income. Ordinarily, rates and charges increases would be targeted to be 3.5% above CPI to generate additional funds to allocate to improve the operating result so as to provide much needed funding for long term debt redemption and capital renewal expenses.

During the 2003/2004 year, a revaluation of all properties within the municipality was carried out which apply from 1 January 2004 for the 2004/2005 and 2005/2006 financial years. The outcome of the general revaluation has been a significant change in property valuations throughout the municipality. Overall, property valuations across the municipal district have increased by 60%. Of this increase, properties situated close to the coast have increase markedly compared to the rest of the district. For example, properties situated in the Coastal ward on average increased by 94%, whereas properties situated further inland increased between 45 and 66%.

Across the Shire, residential properties have increased by 72%, farmland by 46%, commercial by 28% and industrial properties by 23%.

Council has chosen not to make any changes to the existing rate differentials.

The following table sets out future proposed rate increases and total rates to be raised, (including supplementary and special charge rate income) based on the forecast financial position of Council as at 30 June 2005.

Year	Rate Increase %	Total Rates Raised $'000
2005/2006	**6.0%**	**19,014**
2006/2007	6.0%	20,089
2007/2008	6.0%	21,330
2008/2009	6.0%	22,553
2009/2010	6.0%	23,962

It should be noted that each financial year an allowance or contingency is factored in for rate abandonment's. Every second financial year when the bi annual re-valuations are conducted, an even greater allowance is allowed for. This in effect, discounts slightly the proposed rate increases.

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 2004/2005 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 2005/2006 year. A more detailed analysis of the rates to be raised is contained in Appendix B “Statutory Disclosures”.

Rate type	2004/2005	2005/2006
Residential rates – rate in the $ of CIV	0.003183061	0.00337235
Commercial rates – rate in the $ of CIV	0.003183061	0.00337235
Industrial rates– rate in the $ of CIV	0.003183061	0.00337235
Rural Living– rate in the $ of CIV	0.003183061	0.00337235
Vacant Land – rate in the $ of CIV	0.005092898	0.00539576
Farm land – rate in the $ of CIV	0.002864755	0.00303512
Cultural / Recreational rates – rate in the $ of CIV	0.001273224	0.00134894
Municipal charge - $ per property	$200.05	$212.45
Garbage & Recycling charge Residential - $ per property	$135.00	$143.10
Garbage & Recycling Charge Commercial - $ per property	$200.00	$212.00
Recycling only charge - $ per property	$135.00	$143.10

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. Council since 2004/2005, has started 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 following table shows a history of Council borrowings for the last eight years and also the prudential ratios applicable, as well as the budgeted outcome for 2005/2006.

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%
2004/2005	12,498	1.2	71%	2.52%
2005/2006	**11,418**	**1.7**	**61%**	**2.22%**
	Threshold	**<1.1**	**>80%**	**>5%**

The table shows that Council's borrowing level at 30 June 2006 will be $11.42 million. It also shows that Council has for a number of years been trending the wrong way with the Victorian State Government's prudential ratio limits. By implementing the debt reduction strategy the long-term financial plan now show a positive trend for the 2005/2006 year and for the future years.

11.2 Current year borrowings

For the 2005/2006 year, Council has decided not to take out new borrowings. Therefore after making loan repayments of $1.08 million, will decrease its total borrowings to $11.42 million as at 30 June 2006. The following table sets out future proposed borrowings, based on the forecast financial position of Council as at 30 June 2005.

Year	New Borrowings $'000	Loan Principal Paid $'000	Loan Interest Paid $'000	Balance 30 June $'000
2004/2005	0	1,009	870	12,498
2005/2006	**0**	**1,081**	**797**	**11,417**
2006/2007	0	980	726	10,437
2007/2008	0	4,144	588	6,293
2008/2009	0	1,424	392	4,869
2009/2010	0	1,472	291	3,397
2010/1011	0	1,423	191	1,974
2011/2012	0	1,523	89	451
2012/2013	0	317	23	134
2013/2014	0	134	4	0
2014/2015	0	0	0	0

Council in future years will be have the financial capacity to consider borrowing for a major capital project if it deems will benefit the community. The key long term financial strategies give specific guidance in relation to borrowings. This will ensure that any decision made will be financially responsible and viable.

12. Infrastructure strategy

12.1 Strategy development

Expenditure on infrastructure (both maintenance and renewal programs) is a significant financial resource requirement in the current and future years. This is one area in which local government significantly varies with the commercial sector.

Most businesses own assets because they provide some future economic benefit to the business. That is, over a period of time, the assets actually contribute to the wealth of the business. Most infrastructure assets owned / controlled by local government do not fulfil this criteria. The assets are required as part of 'service delivery', not for profit making.

This presents several important issues that must be considered in forward budgets. Firstly, irrespective whether the assets produce some future economic benefit, they must be maintained and replaced periodically.

Secondly, local government is different to the commercial sector, in that is not profit driven. Its core objective is not to make profits for profit sake, but rather, it is to provide services. Some of the services that are provided are however capital intensive. Its financial planning objective therefore, is to produce sufficient and consistent operating surpluses or 'profits' to fund asset replacement.

If and when this objective has been satisfactorily achieved, it can then consider funding asset expansion works in a financially responsible manner. The immediate challenge is in fact to try and quantify just how much funds are required now and into the future for asset management.

The services, and in particular the actual level of service that is to be provided, dictate to a large degree what assets are required and what condition they should be in. In fact, there are specific legislative requirements such as the Road Management Act that include the above principals for certain classes of assets,

It is therefore highly desirable that the funding requirements (again, both maintenance and asset renewal) for these assets be identified and quantified. With this information in hand it is then possible to quantify the funding gaps for the infrastructure assets by comparing the 'required dollars' against the 'allocated dollars' as shown in the forward budgets.

This identified funding gap is important because even though the Council may in the next few years become financially viable it can only claim to have achieved long term business viability if and only when this infrastructure funding gap has been identified and funded. This would be documented in the Long Term Financial Plan as showing appropriate levels of 'recurrent capital renewal expenditure' being funded by operating surpluses in current and future years.

Identification of 'funding gaps' should not be confused with 'sustainability gap index', or with the associated costings, such as depreciation.

Funding requirements for assets very much are dependent upon where they are in fact in their lifecycle. Assets nearing the end of their economic life will require a specific amount of funding at a certain point in time. This has a direct impact on longer-term cash flow requirements in a long-term budget.

If not enough funds have been allowed for asset renewal in previous years, the resulting 'backlog' of works would be expected to have an impact on forward budgets. Also, if the longer term asset management funding shortfalls are ignored, deferred or not properly financed, the greater the costs will be in later years to rectify the current funding shortfall. It therefore pays to identify and address funding gap short falls sooner rather than later.

The funding gap is essentially the difference between what the asset lifecycle cash flows are, and the amount that has been allowed / allocated for in forward budgets.

From a holistic asset management point of view, one must also take into account funding requirements for both programmed and reactive maintenance works associated with infrastructure assets. Any shortfall between what is required and allowed for in forward budgets can also be considered as a funding gap.

A properly prepared and funded asset management plan is the most cost effective way to manage the assets and the overall service provision long term

Depreciation on the other hand is really a financial costing mechanism that allocates the cost of the 'consumption' over a particular reporting period. This does not nor should imply that the depreciation cost incurred in a specific period (typically a year) ought be spent on asset replacement in that year.

The correlation of depreciation to capital expenditure incurred in renewing assets (the sustainability index) is purely a financial performance indicator, and should not be considered a key driver of asset management plans. Generating surpluses and subsequently being able to spend more on asset renewal projects would result in improving sustainability index. It does not necessarily mean that an adequate amount is being spent at that particular point in time. At best, it provides trend analysis.

In the interim, the long term strategies aim to provide additional funding for infrastructure assets based on the Sustainability index. This does however, not necessarily mean that assets of greatest need are having funding directed to them. The index merely indicates whether capital renewal funding is trending in the right direction.

Increasing funding allocations to infrastructure renewal works is acceptable on the basis that it is generally accepted that currently allocated funding is well short of desired funding. Having said that, increasing funding unconditionally each year without substantiating or verifying overall needs or priorities, is not at all desirable.

The completion and documentation of asset management plans should therefore be the highest of priorities. It is essential that systems be developed that accurately model the financial requirements to maintain and replace the assets into the future to allow for more informed decisions to be made in terms of allocating scarce financial resources.

Whilst South Gippsland has made some progress in this respect, there is still a significant amount of work to be completed.

An appropriately documented infrastructure portfolio would achieve the following outcomes.

- Identification of what assets Council actually owns / controls
- The replacement value of the assets
- Identification of who uses / requires the assets
- Investigation of best use / mix of assets
- Identification of recurrent maintenance requirements
- Identification of asset renewal requirements
- Identification of backlog / highest priority work
- Accurate forward budgets for capital renewal projects

The Asset Management Policy and the Asset Management Strategy are the principal documents relating to overall asset management of Council. The strategic direction arrived at has to be quantified and reflected in the LTFP forward budgets. The status of the development of these plans is as follow: -

- The Asset Management Policy has been adopted by Council
- The Asset Management Strategy Plan has been adopted by Council
- The Asset Management Plan is 70% complete for roads, 70% complete for Parks & Gardens, 70% complete for Property and 50% complete for Waste Infrastructure
- The Asset Department has been concentrating it's efforts on the Road Maintenance Plan in order to meet the requirements of the Road Management Bill and to minimise Council's exposure to risk.

The life cycles established for the different classes of assets are as follows:

- Pavements 60 years
- Seal 12 years
- Footpaths 60 years
- Kerb and Channel 60 years
- Bridges 100 years
- Culverts 60 years
- Under Ground Drains 60 years
- Play Grounds 10 years
- Buildings 80 years

These life cycles are only achievable if routine maintenance is performed. These life cycles impact on the depreciation charges that are costed in the Statement of Financial Performance.

A core objective of the Asset Department is to develop a series of asset management plans for different classes of assets, which will facilitate long-term asset management. The 2005/2006 and following two budgets have allowed for the purchase of an asset management system. The models produced from the asset management system should provide far more accurate data in relation to financial requirements of infrastructure and fixed assets.

These detailed long term funding requirements would categorise appropriate expenditure mix profiles (periodic maintenance / reactive maintenance / asset renewal) and timing of expenditure. These would then be strategically considered and factored into future long term financial plans

In reality, the evaluation, purchase, and implementation of an asset management system will take several years. In the interim the long-term financial plan has modelled that significant increases of funding will be available for asset management from 2009/2010 onwards. The Asset Department has already begun to allocate the forward capital budget to specific renewal works. In the following years they will of course, begin to do the preliminary design work for these projects.

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 financial measure of Council's performance in respect to infrastructure management is the sustainability index. This indicator can be used both as a 'lag indicator' as well as for forward financial modelling trend analysis. The sustainability index quantifies the proportion of the total asset value consumed (equivalent to the annual depreciation charge), compared to the amount spent in preserving the asset (capital expenditure incurred on renewing existing assets) 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 fixed assets, class by class, based on the forecast capital expenditure on existing assets for the 2005/2006 year.

	Replacem't Cost 30 Jun 05 $'000	**Average Annual Consump'n $'000**	**Average Annual Preserv'n $'000**	**Sustain Index %**
Roads	236,631	3,270	1,615	49
Bridges	24,967	302	15	5
Footpaths	10,171	189	0	0
Kerb & Channel	10,582	191	0	0
Drains & Culverts	25,344	315	69	22
Buildings	31,362	1,229	270	22
Carparks	4,540	63	0	0
Other structures	2,986	193	375	194
Total capital works	**346,583**	**5,752**	**2,344**	**41**

The table indicates that the 2005/2006 capital works program will achieve a sustainability index of 41%. 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 $3.41 million.

12.2 Key influences for 2005/2006

The following influences had a significant impact on the Infrastructure Strategy for the 2005/2006 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 not started or completed that were funded in the 2004/2005 year being carried over to the 2005/2006 year

12.3 Funding sources for capital works

The following table summarises Council's forward outlook on capital expenditure including funding sources for the next five years.

Year	Grants & Contributions $'000	Borrowings $'000	Investment Reserves $'000	Working Capital $'000	Council Operations $'000	Capital Program $'000
2005/06	4,417	0	0	740	1,508	6,665
2006/07	2,515	0	0	0	3,532	6,047
2007/08	2,382	0	0	0	3,813	6,195
2008/09	2,223	0	0	0	4,384	6,607
2009/10	2,334	0	0		6,464	8,798

The forward capital works program is very much dependent upon the level of grants provided for capital works. Only projects with a reasonable likelihood of getting funding are included. Contributions are in the main, proceeds from the sale of assets, namely plant and fleet.

Due to Council's strategy of reducing overall debt, borrowings for projects in the foreseeable future are highly unlikely. Borrowings for projects will only be considered if the capital works proposal satisfies the requirements specified in the financial strategies.

Council has very little spare working capital capacity nor has it cash reserves that can be used to fund a variety of capital projects after the 2005/2006 year. These 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 summarised below:

Appendix	Nature of information
A	**Standard budgeted financial statements for 2005/2006**
B	**Statutory disclosures in the annual budget**
C	**Long term financial plan period ending 30 June 2015**
D	**Capital works program**
E	**Activities and initiatives by Team / Program for 2005/2006**
F	**Key Strategic Activities**
G	**Fees & Charges schedule**

APPENDIX A

<u>Standard budget statements</u>

Standard Statement of Financial Performance

Standard Statement of Financial Position

Standard Statement of Cash Flows

Reconciliation of budgeted operating result and net cash flows

Standard Statement of Capital works

Capital works program

This section sets out the budgeted financial statements (including the standard statements) for 2005/2006 in detail. This information is the basis of the disclosures and analysis of the annual budget in the report.

APPENDIX B

Statutory disclosures

Section 127(2)(e) of the Local Government Act 1989

Regulation 8 of the Local Government Regulations 2004

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. Borrowings

The total amount proposed to be borrowed for the 2005/2006 year is	NIL
The total amount of debt redemption for the 2004/2005 year is	$1,081,180
The projected debt servicing cost for the 2004/2005 year is	$797,254

2. Rates and charges

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

a. A general rate of 0. 337235 cents in the dollar of all rateable residential properties;

b. A general rate of 0. 337235 cents in the dollar of all rateable commercial properties;

c. A general rate of 0. 337235 cents in the dollar of all rateable industrial properties;

d. A general rate of 0. 303512 cents in the dollar of all rateable farm land properties;

e. A general rate of 0. 539576 cents in the dollar of all rateable vacant residential, rural living, commercial or industrial properties;

f. A general rate of 0. 134894 cents in the dollar of all rateable cultural and recreational lands act properties;

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

Type of Property	2004/05 $	2005/06 $
Residential	6,149,219	6,733,823
Commercial	637,083	693,818
Industrial	115,249	153,604
Farm Land	5,118,147	5,417,463
Vacant Land	1,194,345	1,209,193
Cultural & Recreational Lands	8,038	7,997

2.3 The estimated total amount to be raised by rates is $14,215,898

2.4 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 2004/05	2005/06
Residential	(34.12)%	6%
Commercial	(34.12)%	6%
Industrial	(34.12)%	6%
Farm Land	(34.12)%	6%
Vacant Land	(34.12)%	6%
Cultural & Recreational Lands	(34.12)%	6%

Due to the general revaluation of all rateable properties for the 2004/2005 year, the rate in the dollar was significantly reduced relative to the rate in the dollar that was levied last year (2003/2004).

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

Type of Property	2004/05	2005/06
Residential	10,213	10,453
Commercial	749	775
Industrial	98	121
Farm Land	3,774	3,786
Vacant Land	2,533	2,426
Cultural & Recreational Lands	22	21
Total number of assessments	**17,389**	**17,582**

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

2.6 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	2004/05 $	2005/06 $
Residential	1,931,857,000	1,996,773,000
Commercial	200,148,000	205,737,000
Industrial	36,207,000	45,548,000
Farm Land	1,786,591,700	1,784,926,700
Vacant Land	234,512,000	224,100,500
Cultural & Recreational Lands	6,313,000	5,928,000
Total	**4,195,628,700**	**4,263,013,200**

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

Type of Charge	Per Rateable Property 2004/05 $	Per Rateable Property 2005/06 $
Municipal	200.05	212.45
Kerbside Garbage Collection (Residential)	135.00	143.10
Kerbside Garbage Collection (Commercial)	200.00	212.00
2nd Kerbside Garbage Collection (Residential)	135.00	143.10
Recycling charge	135.00	143.10

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

Type of Charge	2004/05 $	2005/06 $
Municipal	3,305,321	3,552,801
Kerbside Garbage Collection (Residential)	1,025,055	1,107,234
Kerbside Garbage Collection (Commercial)	26,600	28,620
2nd Kerbside Garbage Collection (Residential)	15,525	17,887
Recycling charge	nil	nil
Total	**4,372,501**	**4,706,542**

2.9 The estimated amount to be raised by rates and charges: $18,922,440

2.10 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.

3. 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 0.337235% (0. 337235 cents in the dollar of CIV) for all rateable residential and rural living properties;
- A general rate of 0.303512% (0. 303512 cents in the dollar of CIV) for all rateable farm land properties;
- A general rate of 0.337235% (0. 337235 cents in the dollar of CIV) for all rateable commercial properties;
- A general rate of 0.337235% (0. 337235 cents in the dollar of CIV) for all rateable industrial properties;
- A general rate of 0.539576% (0.539576 cents in the dollar of CIV) for all rateable vacant residential, commercial, rural living or industrial properties;
- A general rate of 0.134894% (0. 134894 cents 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 2005/2006 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 2005/2006 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 2005/2006 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 2005/2006 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 2005/2006 to 2014/2015.

Appendix D

Capital works program

This section provides some details of the forward capital works program

Appendix E

Activities and Initiatives by Team / program budget

This section sets out the activities and initiatives to be undertaken by Council in 2005/2006

Appendix F

Key Strategic Activities

This section sets out program initiatives to be undertaken by Council in 2005/2006, including appropriate measures and targets that are subject to audit at year end.

Appendix G

Fees and Charges

This section sets out all fees and Statutory charges of Council