



**Redland**  
CITY COUNCIL

**December  
2011**

**Financial Strategy  
2012 - 2022**





# CONTENTS

**CONTENTS ..... 4**

**1. EXECUTIVE SUMMARY..... 6**

1.1 The Financial Strategy ..... 6

1.2 The Long Term Financial Plan Objectives ..... 6

1.3 Organisational and Community Outcomes ..... 7

1.4 Key Principles..... 7

1.5 Implementation of the Financial Strategy..... 8

1.6 Accountability and Transparency ..... 9

1.7 Reviewing and Refining the Financial Strategy ..... 10

**2. THE FINANCIAL STRATEGY AND 10-YEAR FINANCIAL FORECAST ..... 11**

2.1 Background..... 11

2.2 Key Assumptions..... 13

2.3 Financial Sustainability Measures..... 13

2.4 Financial Sustainability Targets ..... 14

2.5 Financial Sustainability Outputs ..... 16

2.6 Financial Sustainability Summary ..... 18

2.7 Key Performance Information ..... 20

**3. REVENUE AND PRICING ..... 22**

3.1 Background..... 22

3.2 Revenue Policy Statement..... 24

3.3 Revenue Policy Guidelines ..... 25

3.4 Key Risks, Issues and Mitigation Strategies..... 25

3.5 Key Performance Information ..... 27

**4. ASSET AND SERVICES MANAGEMENT ..... 28**

4.1 Background..... 28

4.2 Asset and Services Management Policy Guidelines..... 29

4.3 Key Risks, Issues and Mitigation Strategies..... 30

4.4 Key Performance Information ..... 32



<b>5.</b>	<b>EXPENDITURE MANAGEMENT</b> .....	<b>34</b>
5.1	Background.....	34
5.2	Expenditure Management Policy Statement.....	36
5.3	Expenditure Management Policy Guidelines .....	37
5.4	Key Risks, Issues and Mitigation Strategies.....	37
5.5	Key Performance Information .....	39
<b>6.</b>	<b>INVESTMENTS MANAGEMENT</b> .....	<b>41</b>
6.1	Background.....	41
6.2	Investments Management Policy Statement .....	42
6.3	Investments Management Policy Guidelines .....	42
6.4	Key Risks, Issues and Mitigation Strategies.....	42
6.5	Key Performance Information .....	43
<b>7.</b>	<b>DEBT MANAGEMENT</b> .....	<b>44</b>
7.1	Background.....	44
7.2	Debt Management Policy Statement.....	45
7.3	Debt Management Policy Guidelines.....	45
7.4	Key Risks, Issues and Mitigation Strategies.....	45
7.5	Key Performance Information .....	47
<b>8.</b>	<b>OTHER ISSUES</b> .....	<b>51</b>
8.1	National Competition Policy.....	51
8.2	Implications for Council Policy.....	51
8.3	Community Service Obligations.....	52
8.4	Water Community Service Obligations .....	53
<b>9.</b>	<b>APPENDIX 1 - PARAMETERS</b> .....	<b>54</b>
<b>10.</b>	<b>APPENDIX 2 – OPERATING STATEMENT</b> .....	<b>55</b>
<b>11.</b>	<b>APPENDIX 3 – statement of cash flows</b> .....	<b>56</b>
<b>12.</b>	<b>APPENDIX 4 – KEY PERFORMANCE INDICATORS</b> .....	<b>58</b>
<b>13.</b>	<b>APPENDIX 5 – ten year capital programme</b> .....	<b>61</b>
<b>14.</b>	<b>APPENDIX 6 – glossary of terms</b> .....	<b>62</b>
<b>15.</b>	<b>APPENDIX 7 – RCC CPI CALCULATION</b> .....	<b>63</b>



# 1. EXECUTIVE SUMMARY

## 1.1 The Financial Strategy

The Financial Strategy (the Strategy) is Council's key ten year financial planning document that is governed by a series of strategies, tactical responses and associated financial stability and sustainability targets to measure performance. The Strategy establishes the financial framework under which sound and sustainable financial decisions can be made.

The 2012-2022 Financial Strategy has been prepared on the basis of the best available information as at 14 December 2011. The Strategy is a live document and will be subject to change and amended accordingly if deemed material.

The key strategies upon which the Strategy is developed are as follows:

- **Revenue management:** strategies to maintain sustainable revenue streams and assurance;
- **Long term financial planning (LTFP) and forecasting:** strategies to maximise investments, manage the debt portfolio efficiently and capture whole-of-life costs of investments in infrastructure encompassing decisions on service levels;
- **Asset and services management:** strategies to manage financial risks relating to assets, debt, costs and service levels;
- **Culture and change:** strategies to ensure accountability, compliance and sound financial management and decision making; and
- **Signalling:** strategies to identify the financial effects of Federal, State and Council decisions on future generations.

The LTFP is reviewed regularly following quarterly budget reviews and prior to the annual budget preparation process.

## 1.2 The Long Term Financial Plan Objectives

The objectives are to:

- Achieve financial sustainability aimed at ensuring that our revenue is sufficient to cover an efficient operating expense base including depreciation;
- To ensure adequate funding is available to provide efficient and effective core services to the community;
- Undertake good asset custodianship to ensure that all community assets are well maintained and are fit for purpose;



Address key inter-generational infrastructure and service issues, which allows any significant financial burden to be spread over a number of years and not impact adversely on current or future ratepayers; Provide good financial and asset risk management which gives assurance that major risks have been considered and are reflected in future financial and asset management planning; and

Accelerate priority infrastructure programmes where either a clear need for development has been identified (for example on the Southern Moreton Bay Islands (SMBI), or where cost efficiencies can be achieved (for example capital works on revetment walls in canal estates).

### **1.3 Organisational and Community Outcomes**

We will do this because:

- It demonstrates sound financial governance to the community and to external stakeholders such as the State and Federal Governments and represents Council as a responsible and accountable custodian of community services and assets;
- Our community services and assets will be well maintained and fit for purpose which means that current and future generations will benefit from effective and efficient financial and asset management;
- It protects future generations from bearing the full burden of future infrastructure needs whilst addressing the immediate needs for strategic responses to major issues facing local government; and
- It ensures that our planning is integrated and effective and that there is clear linkage between community expectations and service delivery within affordable limits.

### **1.4 Key Principles**

We will achieve these outcomes through:

- Maximising organisational efficiencies through the implementation of initiatives such as:
  - Continuing constraint in employee numbers and related expenses;
  - Reviewing core business and service level reviews;
  - Reform of business service delivery modes where appropriate;
  - Continuing to deliver on efficiency targets to reduce employee and goods and services costs;
  - Challenging the priority and need for discretionary operational projects;
  - Effectively managing the legacy impact of water reform in particular the re-integration of water services into Council and the disestablishment of Allconnex Water to ensure the organisation is not financially burdened;



Continuing with rating reform in order to meet distribution targets between residential, commercial and investor categories. This also includes a convergence model for residential ratepayers which will generally see over time higher valued properties within categories paying no more than three times that paid by lower valued properties;

- Applying user pays principles where it is appropriate to do so and there is a clearly identifiable cohort which benefit from using those facilities and services;
- Optimising our capital and borrowing programmes to ensure delivery of projects which maximise synergies, gain economies of scale and balance the objectives of the Community Plan, Corporate Plan and Financial Strategy. This includes increasing borrowings over the medium term at an affordable level and making an assessment of the deliverability of projects;
- Administering exceptional circumstance hardship relief which will be applied consistently and equitably to those in the community that may need it. This has been demonstrated with the continuing removal, wherever possible, of capping from the rating system and relying on this type of relief to minimise financial impact on ratepayers;
- Utilising returns from cash investments to minimise financial impacts on ratepayers;
- The use of business opportunities and the commercialisation of appropriate services to minimise financial impacts on ratepayers; and
- Investigate opportunities for partnerships in delivering infrastructure to minimise the burden on ratepayers.

## **1.5 Implementation of the Financial Strategy**

We will implement the Strategy:

- Over 10 years to ensure that the Strategy objectives can be achieved in a financially sustainable way and that these can be delivered in an effective and efficient manner;
- Through the delivery of operational and capital programmes which are aligned with Community and Corporate Plan objectives. All capital and operational projects will be subject to rigorous business cases and prioritisation to ensure that the alignment is applied consistently before they are included in future spending plans;
- By continuing with rating reform which is provided in a separate policy document, however the basic intent is to:
  - Ensure that the rating system is simplified and is understood by the community;
  - That the revenue policy reflects the capacity of the property to generate revenue for owners;
  - Limiting increases in residential rates generally in line with appropriate inflation indices;



- Ensuring that there is convergence between the amount paid by lower and higher valued properties within categories;
- Utilising an exceptional circumstances hardship policy to deal with any adverse financial impacts on ratepayers due to the outcomes of these reform initiatives.
- Integrating asset management and procurement planning with financial planning which will ensure that spending on community assets will be clearly defined and in accordance with sound asset management and procurement practices; and
- Through a sustainable borrowing policy which will see increases in affordable borrowings over the medium term aimed at supporting capital spending in accordance with the Strategy objectives.

## **1.6 Accountability and Transparency**

We will demonstrate accountability and transparency by:

- Having clear financial stability and sustainability ratios, and associated targets which demonstrate if Strategy objectives are being achieved;
- Continuing to separately report on mainland and SMBI revenue and expenses and ensuring that any cross-subsidisation from or to the Mainland General Fund is identified;
- Continuing community engagement on revenue and spending issues building on the work already completed and in place for community consultation and rating reform;
- Applying full cost pricing to more services where it is appropriate which will ensure that the full cost of services including providing community service obligations (CSOs) are clearly identified and accounted for in their own right in the General Fund;
- Clearly linking our revenue and spending decisions to the Community Plan and Corporate Plan;
- Obtaining independent assessment of the sustainability of our Strategy through the Queensland Treasury Corporation (QTC) which will provide confirmation or otherwise of progress against strategic objectives and provide guidance on any necessary changes; and
- Regular reporting to the community on progress against our financial targets.



## **1.7 Reviewing and Refining the Financial Strategy**

We will continually review our Strategy by:

- Ensuring that any changes to Community or Corporate Plans are reflected in the Strategy;
- Being responsive to any emerging issues and including these in our forward planning;
- Capturing the quarterly budget revisions in our LTFP and analysing the impacts of any changes on our financial stability sustainability ratios;
- Undertaking annual reviews of our capital and operational projects;
- Considering policy changes before changing our spending plans; and
- Considering the outcomes of any future community and/or rating consultation processes.

## 2. THE FINANCIAL STRATEGY AND 10-YEAR FINANCIAL FORECAST

### 2.1 Background

The Strategy provides us with an agreed roadmap for managing our financial resources and processes and is aligned with the objectives and priorities of our Community, Corporate and Operational Plans. Within the framework of the Strategy, guidance is provided to support decision making with respect to capital and operating revenue and expenditure, asset and service management levels and strategic procurement. The following diagram demonstrates how our key strategy documents provide a framework for the allocation of finite resources to deliver on agreed community outcomes.





Within this framework we have also established objectives which seek to ensure that:

- We, our assets and our activities are sustainable;
- Our efforts and outputs are effective;
- We and our people are clever; and
- We and our people are caring.

The Strategy is a key document therefore in providing guidance on the achievement of these objectives.

The Strategy is also influenced by:

- Global, national, regional and local economic conditions;
- Population growth overall and in particular areas of Council;
- Changes in population demographics;
- Local government reform via changing legislative requirements; and
- Known changes in Federal and State government funding.

A good understanding of local issues also needs to be recognised and included within the Strategy so that longer term growth needs can be taken into account and financial impacts understood which may affect financial sustainability. A snapshot of some of the key City statistics is provided below:

- Population of Redland City 2010-2011: 140,691
- Total Value of all properties in the Redlands: \$16.57 billion
- Rates notices generated: 65,077
- Land under roads 2010-2011: 1,035 km
- Length of road owned by Council 2010-2011: 956 km
- Length of road owned by other entities 2010-2011: 79 km

A key component of the Strategy is the long-term financial forecast which is a 10-year financial model. The model is reviewed quarterly following revised budget forecasts and is used to support resource allocation decision making. The financial forecast contains details of the assumptions used to estimate growth rates, price increases, general rates and charges increases, and also provides the financial outputs and financial sustainability measures for each of the 10 years.

The 10-year focus allows us to assess our financial sustainability over the period and to guide corporate decision-making. It is a living and breathing document, guiding our financial planning, revenue-raising and spending activities while adapting to changing needs and requirements. Not only is this approach required by legislation but it also makes good business sense.



The 10-year Financial Forecast provides transparency into our financial performance and planning, giving the Community a view of how its services are being funded and where the money goes. It is a tool for validating and maintaining alignment with the Community and Corporate Plans and with legislative requirements. It reflects the efforts we are making to meet current and future Community expectations and serves to signal the decisions and actions needed to ensure our future financial sustainability.

## 2.2 Key Assumptions

The key assumptions included in the 10-year financial model are as follows (Year 1 represents 2012/13):

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Growth	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
ABS CPI	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
RCC CPI*	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
EB	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

\* The RCC CPI is a blend of indices relevant to Councils expenditure and includes the general construction index and the roads and bridges index. (Appendix7).

ABS CPI = Australian Bureau of Statistics Consumer Price Index (applied to general operating costs)

RCC CPI – Redland City Council Consumer Price Index (applied to general fees and charges)

EB – Enterprise Bargaining increase (applied to employee costs)

## 2.3 Financial Sustainability Measures

Due to the length of period that long term financial plans cover it needs to be acknowledged that it serves as a guide only in respect of future years. It is generally accepted that years 1 – 3 can be relied on as more robust estimates are available, with years 4 – 5 providing a good indication of outcomes. Years 6 – 10 are subject to significant fluctuation due to the time horizon being looked at but do provide a signal for any effects on the long term as a result of short term decision making.



A good example of this being the reassessment of the Strategy within a very short timescale during 2011 when the State government announced the capping of water retail pricing and developer infrastructure charges. Due to the sensitivity of modelling within the Long Term Financial Plan the impact of these announcements was quickly understood and we responded to ensure that mitigation actions were implemented immediately including steps to reduce staffing levels across Council and implementing a corporate restructure of management.

A key objective of the Strategy is to achieve financial sustainability over the life of the 10-year financial model. Sustainability can be defined as and measured by:

- Ensuring that cash flow capability remains strong (Operating Performance Ratio);
- Ensuring a reasonable operating surplus exists to fund future growth requirements (Operating Surplus Ratio);
- The level of dependence on general rates as a single source of revenue (Level of Dependence on General Rates Ratio);
- Ensuring that we have the ability to pay for our bills (Current Ratio, Cash Balance and Cash Capacity Ratio); while also ensuring the optimal level of cash is held.
- Ensuring that borrowing is only undertaken for prudent purposes, is efficient and affordable and in line with Debt Policy (Debt Servicing Ratio, Interest Coverage Ratio, Net Financial Liabilities Ratio and Debt to Asset Ratio); and
- Ensuring that our infrastructure assets are maintained and fit for purpose (Asset Sustainability Ratio, Asset Consumption Ratio and Asset Renewal Funding Ratio).

## 2.4 Financial Sustainability Targets

In order to achieve financial sustainability, the following targets have been established for each of the measures of sustainability which are reviewed annually to ensure alignment with any revisions to the Strategy:

Measure of Sustainability	Definition	Target
Level of dependence on General Rates	General Rates Less Pensioner Remissions divided by Total Operating Revenue less Gain on Sale of Land	≤ 37.5%
Current Ratio	Current Assets divided by Current Liabilities	1.1 to 4.1
Debt Servicing Ratio	Interest Expense plus Loan Redemption divided by Total Operating Revenue less Gain on Sale of Land	≤10%



Cash Balance	Cash held at end of period	≥\$40 M
Cash Capacity in months	Cash held at end of period divided by Cash Operating Costs plus Interest Expense expressed in months	3 to 4 months
Debt to Asset Ratio	Current plus Non-current Borrowings divided by Total Assets	≤10%
Operating Performance Ratio	Net Cash from Operations plus Interest Revenue and Expense divided by Cash Operating Revenue plus Interest Revenue	≥20%
Operating Surplus Ratio	Net Operating Surplus divided by Total Operating Revenue	Between 0% and 10%
Net Financial Liabilities Ratio	Total Liabilities less Current Assets divided by Total operating Revenue	≤60%
Interest Cover Ratio	Net Interest Expense on Debt divided by Total operating Revenue	Between 0% and 5%
Asset Sustainability Ratio	Capital Expenditure on Renewal of Assets divided by Depreciation Expense	≥90%
Asset Consumption Ratio	Written Down Value of Infrastructure Assets divided by Gross Replacement Cost of Infrastructure Assets	Between 40% and 80%
Asset Renewal Funding Ratio	NPV of planned Capital Expenditure on Renewal of Assets over 10 years divided by NPV of the required Capital Expenditure on Renewal of Assets over 10 years	≥90%



## 2.5 Financial Sustainability Outputs

The following table shows the results for each of the measures of sustainability over the life of the Strategy and highlights where the measure meets (green) or fails to meet (red) the target. Orange shading demonstrates the measure is close to meeting the target. Detailed percentages associated with each of the ratios can be found at Appendix 4.

Measure of Sustainability	Yr 1 12/13	Yr 2 13/14	Yr 3 14/15	Yr 4 15/16	Yr 5 16/17	Yr 6 17/18	Yr 7 18/19	Yr 8 19/20	Yr 9 20/21	Yr 10 21/22
Level of dependence on General Rates	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Current Ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Debt Servicing Ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Cash Balance	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Cash Capacity in months	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Debt to Asset Ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Operating Performance Ratio	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green



Measure of Sustainability	Yr 1 12/13	Yr 2 13/14	Yr 3 14/15	Yr 4 15/16	Yr 5 16/17	Yr 6 17/18	Yr 7 18/19	Yr 8 19/20	Yr 9 20/21	Yr 10 21/22
Operating Surplus Ratio	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green
Net Financial Liabilities Ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Interest Cover Ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Asset Sustainability Ratio	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Asset Consumption ratio	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Asset Renewal Funding Ratio*										

\*Information currently not available for this ratio



## 2.6 Financial Sustainability Summary

The adopted May 2011 Strategy and Long Term Financial Plan were subject to a Credit Review by the Queensland Treasury Corporation (QTC) in October/November 2011 which resulted in a rating of 'Sound' with a 'Neutral Outlook' based on the following definitions:

**Sound:** *A local government with an adequate capacity to meet its financial commitments in the short, medium and long-term. While it is likely that it may have a record of minor to moderate operating deficits, the local government is expected to regularly report operating surpluses. It is likely able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor or moderate revenue and/or expense adjustments. The expense adjustments are likely to result in some changes to the range of and/or quality of services offered. Its capacity to manage core business risk is sound.*

**Neutral Outlook:** *There are no known foreseeable events that would have a direct impact on the local government's capacity to meet its financial commitments. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if such an event or circumstance warranted as such.*

As part of the review process QTC identified the following two areas of risk based on sensitivity testing namely:

- The capacity of ratepayers to meet proposed price increases for general rates in the first two years of the Strategy; and
- The capacity of the organisation to meet the significant efficiency targets for both goods and services in order to achieve a surplus by 2013/14.

In order to address these issues identified in the Credit Review, this annual Strategy review has resulted in the following actions in formulating decisions on revenue raising and operational and capital resourcing over the life of the Strategy which can be summarised as:

- Current forecasts have now lowered expectations with respect to general rate revenue increases, recognising the limited capacity of the community to afford high price increases;
- Current forecasts reflect the financial impact of the reintegration of the water business back into Council which is favourable when compared to estimates of returns from Allconnex Water;
- Current forecasts have now lowered targets for reductions in goods and services spending as a result of water reintegration which were generally seen as difficult to achieve;
- Current forecasts predict reducing cash balances in years 2 and 3 but are within acceptable parameters and improve for the remaining years;



- Current forecasts continue to predict a return to acceptable levels of operating performance from year 2 even with the lowering of expectation in general rate increases and the implementation of significant efficiency targets;
- Current forecasts predict lower levels of borrowing and the costs of servicing these debts is within acceptable parameters; and
- Current forecasts predict that there is insufficient renewal spending on infrastructure assets however target renewal spending levels have been included in years 6 to 10 of the Strategy which improve performance.

Many organisations, including State Government and Statutory Bodies utilise credit ratings to demonstrate and provide targets for fiscal stability. The financial sustainability of local governments also helps the State Government in maintaining its credit rating which benefits councils by keeping borrowing costs lower.

For the purposes of this Strategy, we are committed to maintaining the ratios relevant to achieving a credit rating of BBB+ which describes an organisation as having “adequate capacity to meet financial commitments with adverse economic conditions or changing circumstances more likely to lead to a weakened capacity of the obligor to meet its financial commitments”. This credit rating target will be reviewed annually to reflect our intentions with regard to fiscal stability.

The following table demonstrates our predicted performance with respect to a BBB+ credit rating compared with the credit rating requirements as stipulated by Queensland Treasury Corporation for the 2012/13 and 2013/14 financial years.

Indicators	Quantitative Measures	Definition	Credit Rating Requirements	Predicted Performance 2012/13	Status	Predicted Performance 2013/14	Status
Interest Cover Ratio	EBITDA	Earnings before interest, tax, depreciation & amortisation divided by interest	≥ 2.5	10.49	✓	12.43	✓
Interest Cover Ratio	EBIT	Earnings before interest and tax divided by interest	≥ 1.75	-1.18	✗	1.55	✗
Interest Cover Ratio	FFO	Funds From Operations: Operating profit less tax plus non-cash abnormal losses plus net losses on sale of assets divided by interest	≥ 2.25	-2.18	✗	0.55	✗
Interest Financing Ratio	FCF	Free Cash Flow: Funds from operations less dividends divided by net capital expenditure		63%	✓	69%	✓
Leverage Ratio	Debt to Capital	Debt divided by debt plus equity		4%	✓	5%	✓
Leverage Ratio	Net debt to asset base	Interest bearing liabilities less cash divided by fixed assets	≤ 60%	2%	✓	3%	✓

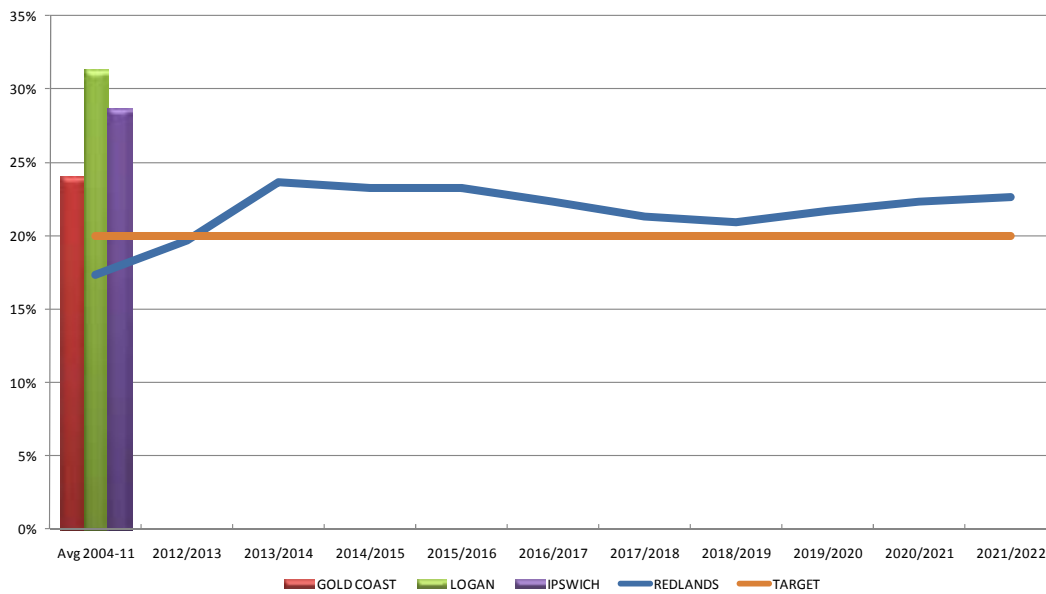


## 2.7 Key Performance Information

The following charts show that we have previously underperformed on average on both operating ratios in comparison to other councils, and the achievement of the targets established for each of these ratios is of importance in order to achieve financial sustainability.

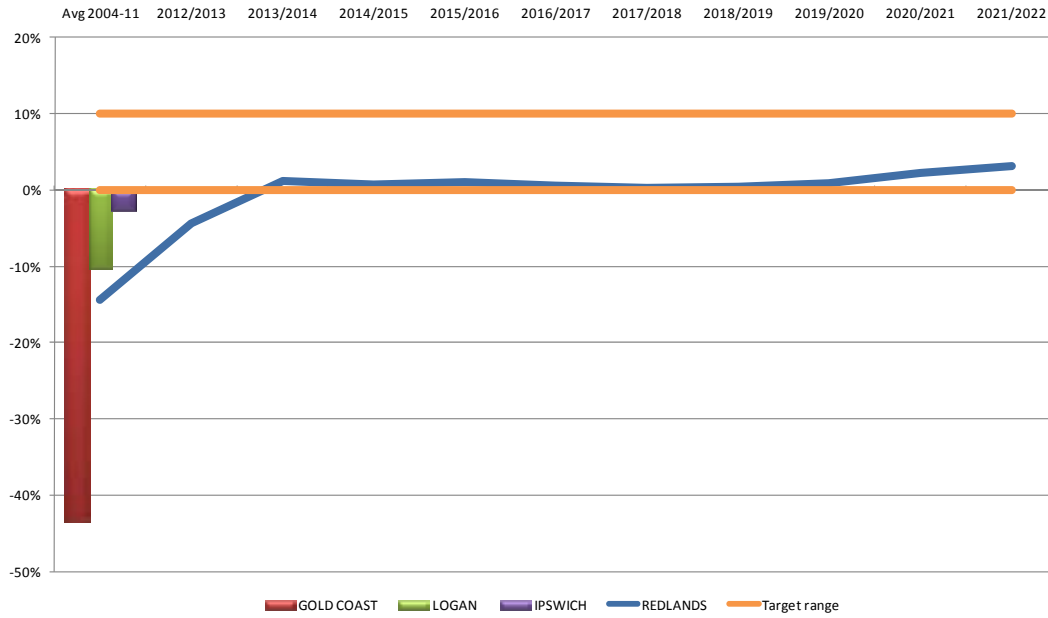
By Year 2 of the Strategy however it can be clearly demonstrated that the ratios will meet and exceed the target.

### OPERATING PERFORMANCE





### OPERATING SURPLUS RATIO





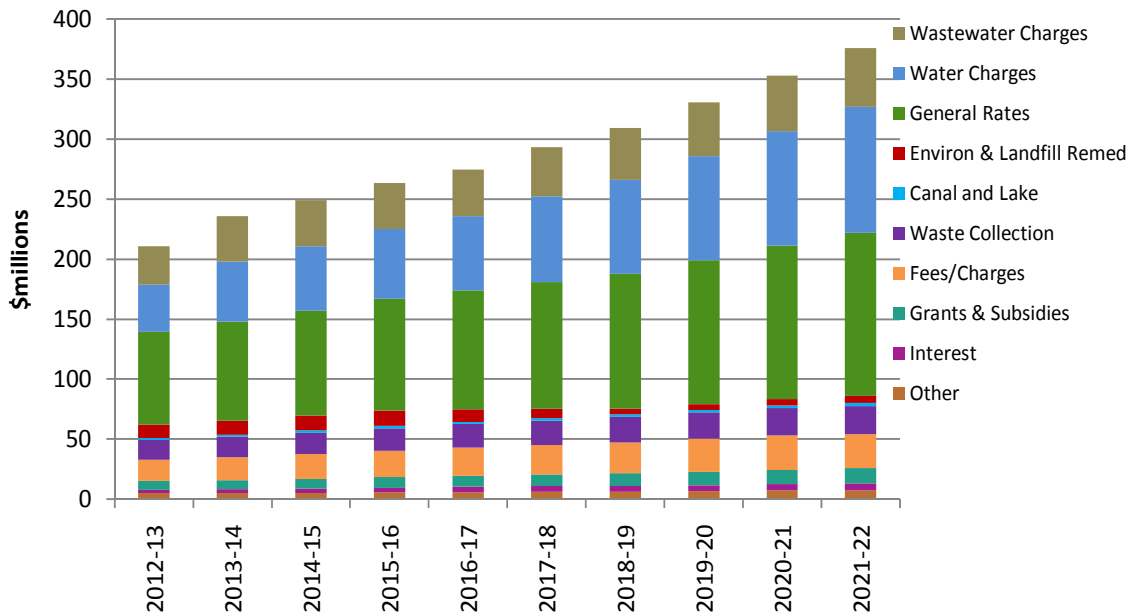
### 3. REVENUE AND PRICING

#### 3.1 Background

Our significant sources of operational revenue are as follows:

- General Rates;
- Water and wastewater Charges;
- Environment and Landfill Remediation Separate Charges;
- Canal Special Charges;
- Waste Collection Charges;
- Fees and Charges;
- Federal and State Grants and Subsidies;
- Investment Interest; and
- Other Revenue.

The following chart provides an analysis of the total operating revenue by source and identifies the proportion of revenue from each of those sources.





In relation to the 10-year financial model, the following operational revenue streams have been identified as ones which will require closer management attention in order to support the achievement of the financial sustainability targets:

- Investment returns – due to lower predicted interest rates;
- Water and wastewater charges – due to the reintegration of Redland Water into Council operations with effect from 1 July 2012. State imposed retail and distribution water price capping will continue for 2012-13 with the implementation of Council's Price Mitigation Plan from 2013-14. The full impact of these activities will be closely monitored during Year 1 of the Strategy.
- Federal and State Grants and Subsidies – due to the potential for redirection of these funds into disaster recovery and rebuilding programmes; and
- Internal Service Level Agreements– due to the reintegration of Redland Water these charges will be fundamentally reviewed to ensure value for money.

All other operational revenue streams are predicted to increase in line with adopted key assumptions.

Our significant sources of capital revenue are as follows:

- General Rate Fund Cash Reserve;
- Environmental and Landfill Remediation Reserves;
- Canal and Lake Reserves;
- Other Reserves;
- Infrastructure Charges (subject to ongoing State imposed capping);
- Federal and State Capital Grants and Subsidies; and
- Borrowings;

In relation to the 10-year financial model, the following capital revenue streams have been identified as ones which will require closer management attention in order to support the achievement of the financial sustainability targets:

- General Rate Cash Reserve – due to the lower cash balances predicted in the early years of the Strategy;
- Federal and State Grants and Subsidies – due to the potential for redirection of these funds into disaster recovery and rebuilding programmes;
- Infrastructure Charges – due to the decision by the State Government to cap infrastructure charges; and
- Borrowings – to ensure affordability of borrowings to fund capital expenditure.



### 3.2 Revenue Policy Statement

The generation of an appropriate level of revenue to support the delivery of the Community Plan goals will be an essential element of the 10-year Strategy. By articulating its aspirations, the community has stated what it wants to see in terms of the future development of the City and now it also needs to articulate how these aspirations will be paid for.

We have determined the following policy position in relation to revenue-raising and cost minimisation and this has been reflected in the assumptions included in the 10-year financial model.

	Aggressive	Moderate	Conservative
Efficiency returns	✓		
Commercial returns	✓		
Service levels and mode of delivery		✓	
User Pays		✓	
General rates			✓
Fees and charges			✓



### 3.3 Revenue Policy Guidelines

The Strategy has adopted the following strategies in relation to revenue sources:

- Keeping general rates increases below projected LGAQ CPI index;
- Keeping separate charges and special charges below projected LGAQ CPI index;
- Keeping water and wastewater charges increases in line with State imposed price capping restrictions and Council’s Price Mitigation Plan subject to Queensland Competition Authority price monitoring scrutiny;
- Keeping waste collection and other fees and charges increases in line with the projected RCC CPI index, with an appropriate level of return to Council in accordance with the National Competition Policy;
- Seeking to maximise revenue from external grants and subsidies where possible, however this is impacted by the need at Federal and State levels to fund disaster recovery and infrastructure affected by recent flood and cyclone events;
- Seeking to increase the level of commercial returns; and
- Keeping growth projections for rateable properties at a conservative level for the life of the Strategy.

### 3.4 Key Risks, Issues and Mitigation Strategies

The Strategy has identified the following risks in relation to revenue and pricing which have been assessed in accordance with Council’s adopted Enterprise Risk Management framework.

#### Material Risks/Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
The provision of services to Allconnex Water will cease on 1 July 2012 and reintegration activities will commence	Almost Certain	Major	Extreme
Potential reduction in service delivery due to insufficient funding	Almost Certain	Medium	High
General rate increases do not increase as a minimum in line with the LGAQ CPI	Almost Certain	Medium	High
Fees and charges may not be affordable and take up is reduced under the “User Pays” model	Almost Certain	Medium	High



Infrastructure charges remain capped and exemption is not provided to charge existing levels of charges.	Almost Certain	Major	Extreme
Grants and subsidies are reduced due to disaster relief	Likely	Medium	High

### Less Significant Risks/Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Predicted population growth does not materialise	Likely	Low	Medium
Ageing population increases burden on pensioner remissions	Likely	Low	Medium
Investment income increases due to higher cash balances and interest rate changes	Possible	Low	Medium
Sale of Council land to raise additional capital revenue for investment	Possible	Medium	Medium
Increase in outstanding debt affects cash flow and ability to deliver on services and projects	Possible	Medium	Medium

Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks, the following projects and actions are proposed:

- Allconnex Water Management Project – to establish processes in accordance with the water reform framework to understand and manage the cost, staffing and service delivery impact of the reintegration of Redland Water into Council operations; and
- Cash Management Project – to improve daily cash management forecasting using the corporate Finance System in order to plan more effectively for investment of funds and to signal issues relating to cash-flow.

The following material risks will be placed on 'watch' before mitigation projects are initiated:

- The impact of capping of infrastructure charges;
- Continued capping of water prices;
- Lower than forecast increases in revenue.



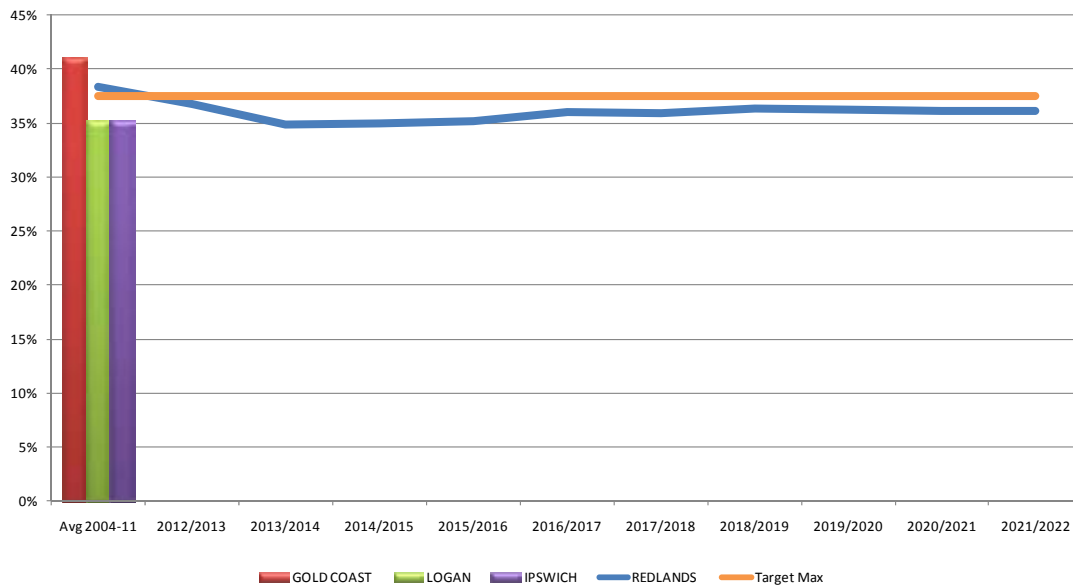
### 3.5 Key Performance Information

The following chart provides a comparison with how we compare on this indicator with similar sized councils in south-east Queensland using an average for the period 2004 to 2011.

The average shows that we have been slightly less dependent on general rates than Gold Coast City Council and Ipswich City Council, whereas Logan City Council has been comparable.

The graph also shows how the indicator performs over the life of the Strategy compared to the adopted target. As indicated by the 10-year financial plan it is forecast that we will be under the target for the level of dependence on general rate revenue under the current assumptions.

LEVEL OF DEPENDENCE ON GENERAL RATES REVENUE





## 4. ASSET AND SERVICES MANAGEMENT

### 4.1 Background

In meeting the needs of a large and modern community, we are responsible for provision of a diverse range of services. A significant number of these services are provided through infrastructure and other assets owned and managed by council, albeit with a practical consideration of the wide-ranging desires and varying expectations of the community.

In continuing to provide these asset-based services, we are faced with notable challenges including:

- decreasing availability and increased competition for funds;
- population growth pressures and changing demographics directly influencing the quantity and type of assets (and services) required;
- a gradual, but nonetheless significant deterioration in the performance of existing infrastructure and other assets supporting these services;
- growing risk and liability coming as a consequence of an increasingly litigious society; and
- escalation in the quantity and complexity of related reporting demanded by business regulators and other levels of government.

Our response to this will be through the adoption of an Asset & Services Management Strategy which will assist in meeting these challenges by providing a framework for improving asset and services management practices in accordance with council's adopted asset management policy objectives.

In addition to being aligned with the Community and Corporate Plans, the Asset and Services Management Strategy is shaped by the increasing requirements of The Local Government Act 2009, Local Government (Finance, Plans and Reporting) Regulation 2010 and Department of Local Government and Planning (DLGP) ratios and targets for asset sustainability, asset consumption and asset renewal funding.

In relation to the 10-year financial model, the following asset and services management issues have been identified as ones which will require closer management attention in order to support the achievement of the financial sustainability targets:

- Asset Sustainability Ratio – due to not meeting the DLGP target for the life of the Strategy;
- Asset Category Definitions – to ensure that an accurate spend profile is identified for renewal, upgrade, expansion and new capital projects;
- Condition of asset base – strengthen understanding of remaining useful lives to ensure a true prediction of assets life cycle; and
- Valuation and depreciation methodologies – to ensure the optimisation of depreciation costs.



Our policy in this area is designed to provide guidance in the implementation and improvement of corporate asset and services management processes and seeks to achieve the following outcomes:

- Identify the key activities, roles and relationships associated with the implantation of an overarching asset management philosophy;
- Establish and communicate corporate responsibilities for the ownership, control, accountability and reporting of assets;
- Highlight the importance of Levels of Service (LoS) and how they underpin decision-making and future planning for assets and related services;
- Reinforce that assets should only be created, maintained, renewed or replaced in order to provide agreed Levels of Service;
- Assist development of processes that will see future capital expenditure decisions being based on rigorous and documented economic appraisals considered in the context of total life cycle costs and agreed Levels of Service;
- Help in meeting legislative compliance and associated risk management including financial reporting requirements and corporate governance;
- Highlight how our integrated asset management information systems and reporting tools support asset management activates and can provide a high standard of policy and decision support;
- Guide development of reliable systems and asset information that will allow for accurate financial forecasting and planning for sustainable service delivery;
- Identify how asset management processes integrate with corporate and operational planning, budgetary and reporting practices;
- Link individual departmental asset management activities with our overall community vision and corporate goals;
- Classify actions that will improve knowledge of existing asset inventories, asset condition and related performance; and
- Support ongoing improvements to existing Asset and Services Management Planning and corresponding financial forecasting, planning and reporting.

## **4.2 Asset and Services Management Policy Guidelines**

The Strategy has adopted the following strategies in relation to asset and services management:

- That Asset and Services Management Plans will drive investment decisions;
- That identification, scoping and prioritising of renewal projects in the 10-year capital programme be undertaken as soon as practicable; and



- That the integration of asset and services management plans and budgets is effected to ensure that whole-of-life asset and services costs are captured in order to understand the implications of the achievement of long term financial sustainability.

### 4.3 Key Risks, Issues and Mitigation Strategies

The Strategy has identified the following risks in relation to asset and services management which have been assessed in accordance with Council's adopted Enterprise Risk management framework.

#### Material Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Move to a depreciation methodology which reflects the condition of infrastructure assets will lower depreciation expenses	Likely	Major	Extreme
Inadequate control of portable and attractive items results in additional expense to replace	Almost Certain	Low	High
Significant failure of community infrastructure leads to financial stress	Possible	Major	High
Service levels of assets are higher than required	Almost Certain	Medium	High
Failure to reflect whole-of-life costs of services in forecasting	Almost Certain	Medium	High

#### Less Significant Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Insufficient strategic planning for renewals and maintenance may lead to large scale unplanned capital renewals	Unlikely	Medium	Medium
Future financial sustainability is significantly impacted by failure to achieve asset sustainability targets	Possible	Medium	Medium
Deliverability of required capital works programme is not affordable	Possible	Medium	Medium
Material misstatement of financial statements due to non-capitalisation of assets	Rare	Major	Medium



Incorrect prioritisation of capital works projects, leading to misalignment to community priorities and required / urgent infrastructure	Likely	Low	Medium
Increasing public liability claims for injuries in public places and Council owned or controlled facilities	Unlikely	Low	Low
Increasing legal action for discrimination arising from inability to access Council facilities and non compliance of the Disability Discrimination Act 2005-2007	Unlikely	Low	Low

Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks, the following projects and actions are proposed:

- Enterprise Asset Management Project – to establish an enterprise-wide response to asset management, driven by ELG;
- Further development of asset and service management plans in accordance with statutory requirements and business needs;
- Improved financial asset management and integration of asset planning with budgeting and forecasting;
- Develop a complete understanding of the remaining useful lives of our asset base;
- Review of the processes used in the Project Delivery Group;
- Use of the Project Centre for the assurance of the capital projects selection process; and
- Continuing analysis of performance against asset ratios and discussions with the Department of Local Government and Planning relating to the ratios.

The following material risk will be placed on 'watch' before mitigation projects are initiated:

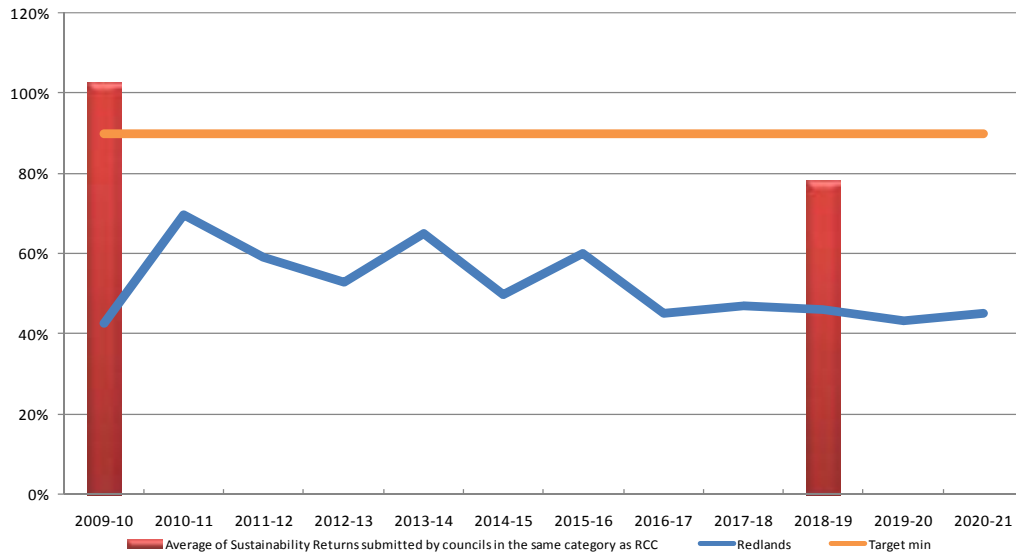
- Potential for failure of enterprise assets; and
- Significant increase to capital program with the reintegration of water, due to condition of assets handed back.



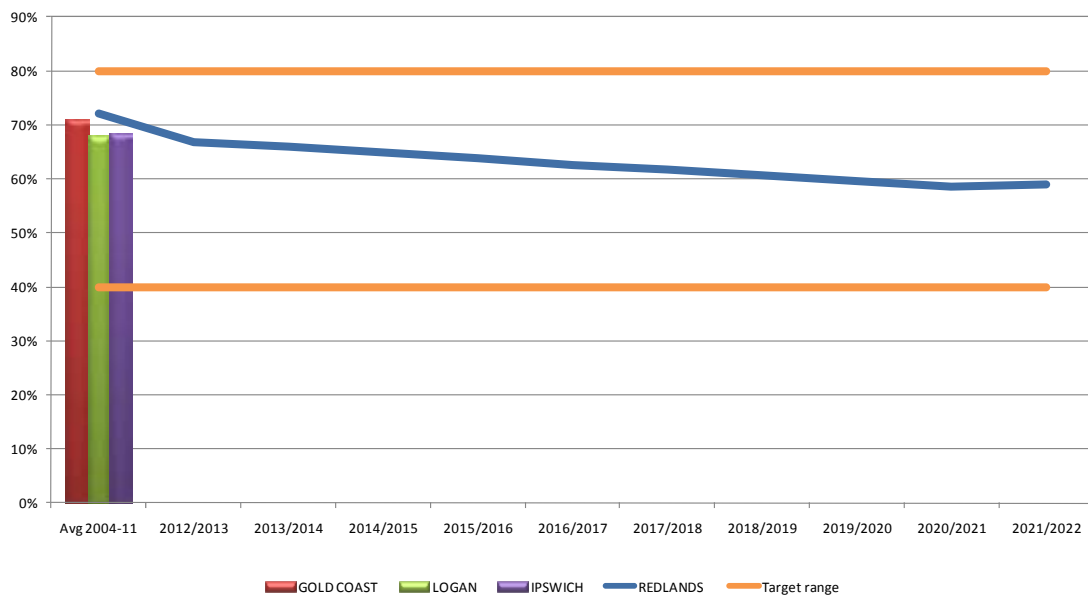
## 4.4 Key Performance Information

These graphs are based on the 2010/11 sustainability return submitted to the Department of Local Government and Planning and the forecast for the indicators included in the 10-year financial model.

### ASSET SUSTAINABILITY RATIO



### ASSET CONSUMPTION RATIO





The above graph provides an historical benchmarking analysis of the Asset Consumption Ratio performance indicator with selected neighbouring councils. The remaining performance indicators are not able to be benchmarked due to the unavailability of data.



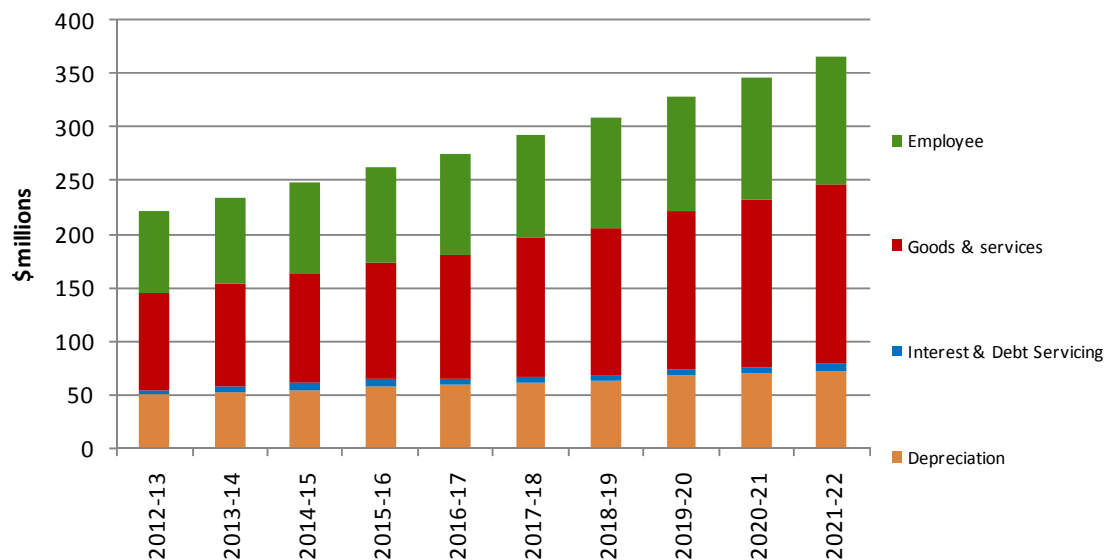
## 5. EXPENDITURE MANAGEMENT

### 5.1 Background

Our significant sources of operational expense are as follows:

- Employee;
- Goods and Services;
- Interest and Debt Servicing; and
- Depreciation.

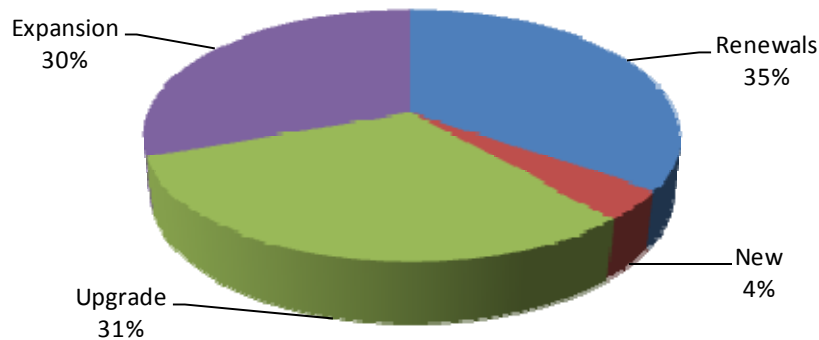
The following chart provides an analysis of the total operating expenditure by type of expense and identifies the proportion of expenditure with each type.



In addition to the above, capital expenditure on renewal, upgrade, expansion and new projects are undertaken over the life of the Strategy. The following chart provides an analysis of this spending type in the projected capital programme for 2011/12.



## 2012-13 Capital Expenditure by Category



In relation to the 10-year financial model, due to projected revenue reductions, the following expense streams have been identified as ones which will require closer management attention in order to support the achievement of the financial sustainability targets:

- Employees – to lower and to continue to critically review the cost of management and staff;
- Goods and Services – to lower and to critically review the timing and cost of discretionary operational projects;
- Goods and Services – to lower due to increasing trends above CPI in respect of a number of specific cost lines including consultants and contractors for example;
- Interest and Debt Servicing – due to borrowings to fund intergenerational projects; and
- Depreciation – due to the requirement to optimise depreciation charges based on condition assessment rather than straight line methodology.

The following capital programming issues have been identified as ones which will require closer management attention in order to support the achievement of the financial sustainability targets:

- Programming the optimal and affordable capital spend over the 10 year financial model, in particular the years 1 to 5; Ensuring the correct level of renewal capital expenditure is programmed;
- Prioritisation of upgrade, expansion and new projects – due to reduction in size of overall capital programme as a result of a shift towards renewal expenditure;



- Federal and State Grants and Subsidies – due to the redirection of these funds into disaster recovery and rebuilding programmes;
- Infrastructure Charges – due to the decision by the State Government to cap infrastructure charges; and
- Borrowings – due to the affordability of borrowings to fund capital expenditure.

## 5.2 Expenditure Management Policy Statement

Operational and capital expenditure management to support the delivery of the Community Plan goals will be an essential element of the 10-year Strategy. By articulating its aspirations, the community has stated what it wants to see in terms of the future development of the City and we will need to determine how those aspirations can be delivered within an environment of reducing revenue.

We have determined the following policy position in relation to revenue-raising and cost minimisation and this has been reflected in the assumptions included in the 10-year financial model.

	Aggressive	Moderate	Conservative
Efficiency returns	✓		
Commercial returns	✓		
Service levels and mode of delivery		✓	
User Pays		✓	
General rates			✓
Fees and charges			✓

The focus of expenditure management is therefore clearly the primary mechanism by which we intend to achieve financial sustainability over the life of the Strategy.



### **5.3 Expenditure Management Policy Guidelines**

The Strategy has adopted the following strategies in relation to expenditure management which may be used in combination to achieve targets of financial sustainability:

- To lower and continue to critically review the cost of management and the cost of staff;
- To continually improve services with an emphasis on efficiency;
- To lower and continue to critically review the cost of goods and services, with an initial focus on discretionary projects;
- Reductions in service levels and/or services through a systematic review of core business and service level review;
- Apply more rigorous purchasing controls to minimise goods and services costs over time, through the future adoption of a strategic procurement model, plans and initiatives for improved procurement efficiencies;
- Over time to provide a more strategic approach to contracts in the future, requiring a rigorous and transparent suitability assessment against the quadruple bottom line, emphasising waste elimination, efficiency and continuous improvement;
- Restricting total size of its capital programme ;
- Identifying, scoping and prioritising new, upgrade and expansion projects in the 10-year capital programme in accordance with a prioritisation model and considering alternatives; and
- Applying gateway reviews to all discretionary operational and capital projects.

### **5.4 Key Risks, Issues and Mitigation Strategies**

The Strategy has identified the following risks in relation to asset and services management which have been assessed in accordance with Council's adopted Enterprise Risk management framework.



### Material Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Possible reduction in service delivery due to cost shifting from other Governments	Likely	Medium	High
Increased costs of attracting and keeping staff in competitive markets where skill shortages exist	Almost Certain	Medium	High
Failure to reflect whole-of-life costs of services in forecasting	Almost Certain	Medium	High
Improving project management processes results in reduced costs and risks, enhanced processes, and better prioritisation and benefits management	Likely	Medium	High
Improved procurement practices result in reduced costs	Likely	Medium	High

### Less Significant Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Ineffective planning of increases to service levels leads to increased costs	Possible	Low	Medium
Improved leave management results in reduced costs	Likely	Low	Medium
Improved control of consultants and temporary staff will result in reduced costs	Likely	Low	Medium
Future financial sustainability is potentially impacted by failure to achieve operational ratios	Possible	Medium	Medium
Failure to recover consequential costs relating to the reintegration of water	Possible	Low	Medium

Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.



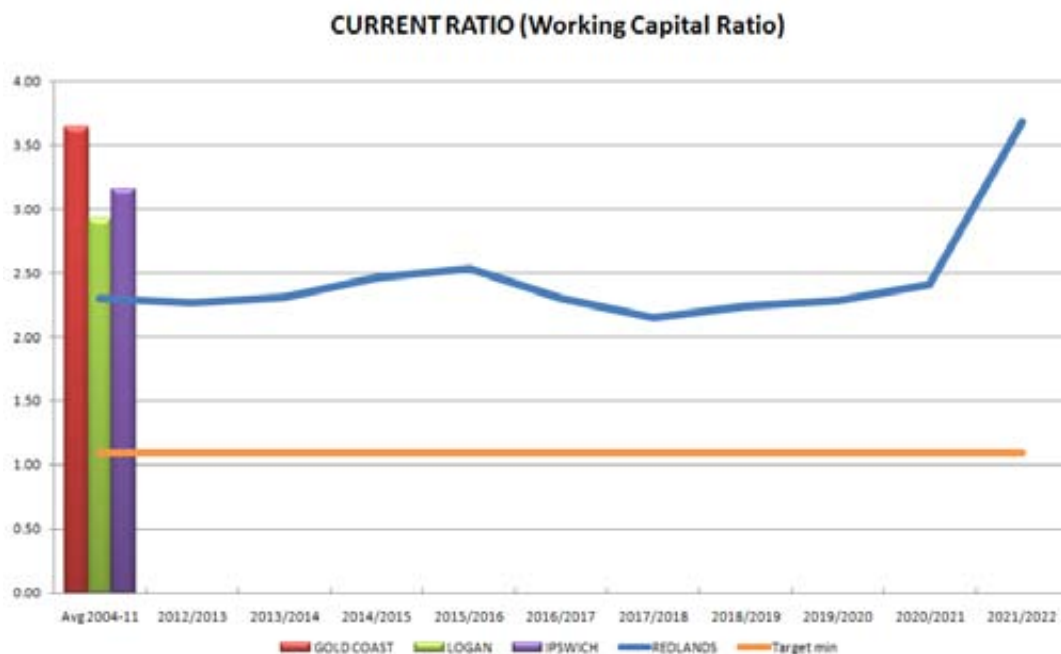
In order to mitigate the above risks, the following projects and actions are proposed during the life of the Strategy:

- Core business and service level review projects – to undertake robust reviews of our services to determine the optimum level of efficiency and effectiveness;
- Strategic procurement project;
- Project management review; and
- Project Delivery Group process review.

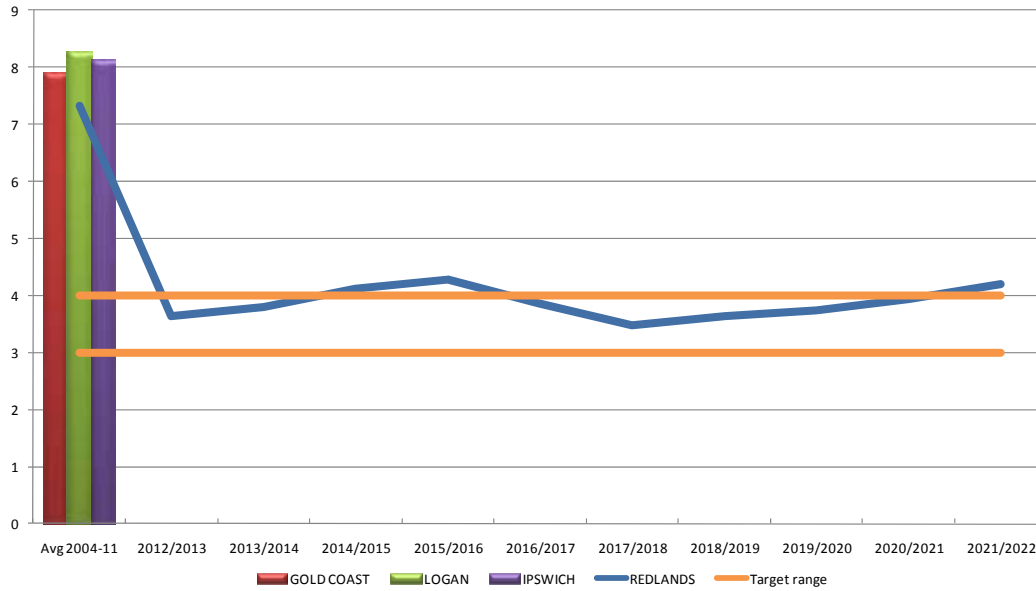
The following material risk will be placed on 'watch' before mitigation projects are initiated:

- Potential for government cost shifting;
- Increased burden on expenditure from Canal estates;
- Direct and indirect impacts of the Carbon Tax; and
- Potential of shortfall from Queensland Reconstruction Authority (QRA).
- 

## 5.5 Key Performance Information



### CASH CAPACITY - IN MONTHS



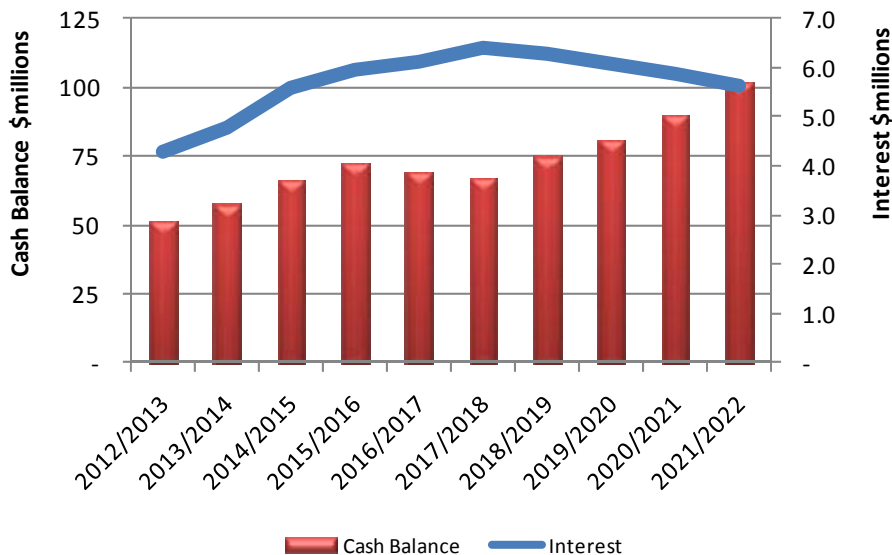
In the above charts, our generally lower current ratio reflects a much lower current asset base relative to current liabilities as compared with other councils. It can be seen in both ratios that the forecast level of cash balances remains just within target over the medium term but that they are forecast to improve in the second half of the period covered by the Strategy.

## 6. INVESTMENTS MANAGEMENT

### 6.1 Background

Traditionally, the main source of interest revenue resulting from the investment of cash balances has been through the Queensland Treasury Corporation (QTC) and the adopted investment strategy has been a passive one.

The following chart provides an analysis of the projected interest revenue over the life of the Strategy and available cash balances that those returns are based on.



In relation to the 10-year financial model, due to projected revenue reductions, investments management has been identified as an area which will require closer management attention in order to maximise returns and support the achievement of the financial sustainability targets, specifically management attention will be required in:

- Cash flow forecasting – improvements in the budgeting and forecasting performance of managers will be a key for more accurate cash flow estimation;
- Cash management – due to the requirement be able to effectively invest the maximise available cash; and
- Institutional investment – due to the likelihood of increased returns by diversifying the institutions that are invested in and the terms of those investments.



## 6.2 Investments Management Policy Statement

We have determined that a more active investments management strategy is to be adopted over the life of the Strategy in order to maximise the interest revenue generated from investing cash balances.

## 6.3 Investments Management Policy Guidelines

The Strategy has adopted the following strategies in relation to investments management:

- Invest only in investments as authorised under current legislation;
- Invest only with approved institutions;
- Invest to facilitate diversification and minimise portfolio risk;
- Invest to protect capital value of investments;
- Invest to facilitate working capital requirements;
- Maintain documentary evidence of investments; and
- No more than 30% of our investments will be held with one financial institution, or one fund manager for investments outside of the QTC, QIC cash funds or Bond Mutual Funds.

## 6.4 Key Risks, Issues and Mitigation Strategies

The Strategy has identified the following risks in relation to asset and services management which have been assessed in accordance with Council's adopted Enterprise Risk management framework.

### Material Risks and Opportunities

None identified.

### Less Significant Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Appropriately term-diversified investment portfolio results in additional revenue	Likely	Low	Medium
Interest rates significantly below benchmark results in lower returns	Unlikely	Low	Low



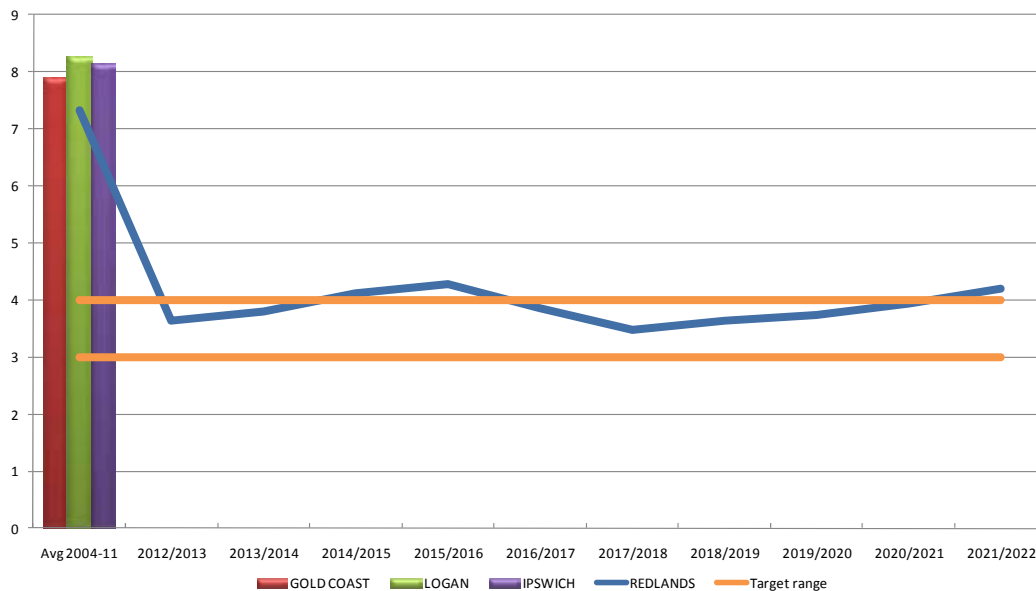
Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks, the following project is proposed:

Cash Management Project – to improve daily cash management forecasting using the corporate Finance System in order to plan more effectively for investment of funds and to signal issues relating to cash-flow.

## 6.5 Key Performance Information

CASH CAPACITY - IN MONTHS



As reported in the previous section, it can be seen that the forecast level of cash balances results in a breach to the target over the medium term but that it is forecast to improve in the second half of the period covered by the Strategy.



# 7. DEBT MANAGEMENT

## 7.1 Background

All of our debt is sourced through the Queensland Treasury Corporation (QTC) and is supported by an annual assessment and application to QTC for the total debt that is required to support the capital programme each financial year, this is known as the 'Borrowing Application'.

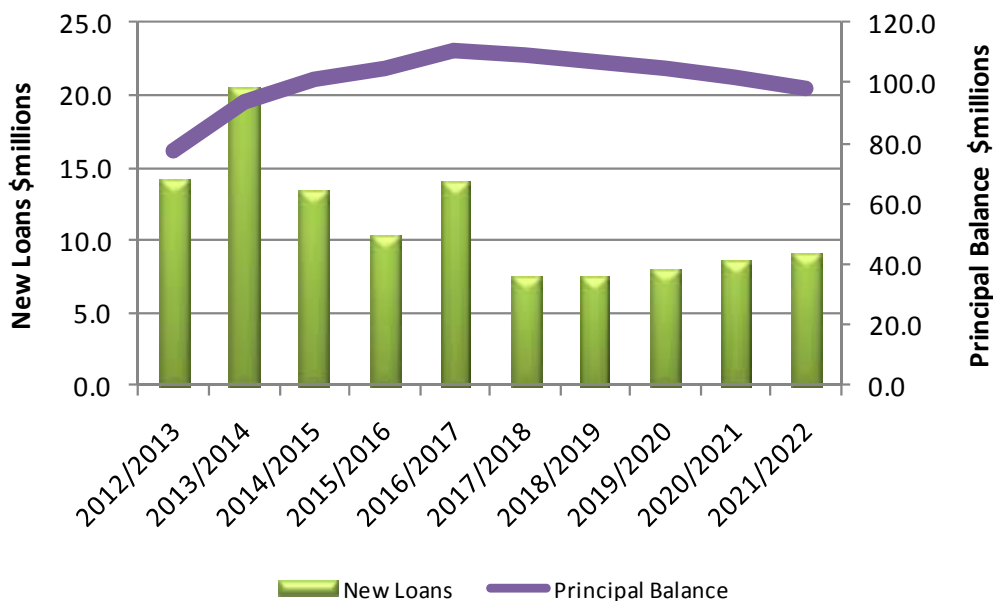
Traditionally, we have managed this debt as a 'pooled debt' which means that it is not allocated to specific capital projects. We have however, made a policy decision to restrict all borrowing to the following capital projects which need to be aligned with Community and Corporate Plan Objectives:

- Intergenerational projects;
- Risk mitigation projects; and
- Accelerated infrastructure projects.

As such all future debt can be attached to specific projects and the costs of servicing that debt can be accurately reflected in the cost base of ongoing services.

Additionally short-term borrowing (up to 2 years) may be used for working capital purposes if related to the funding of water and wastewater reintegration activities under the South-East Queensland Water (Distribution and Retail Restructuring) and Other Legislation Amendment Bill 2011. This short-term provision will be subject to ongoing review.

The following chart provides an analysis of the projected borrowings over the life of the Strategy.





In relation to the 10-year financial model, due to projected revenue reductions, debt management will be monitored to ensure affordability and support the achievement of the financial sustainability targets, specifically management attention will be required in:

- Capital project prioritisation – due to the requirement to be able to identify capital projects that have the ability to be debt funded; and
- Interest risk exposure – due to the requirement to minimise exposure to interest rate fluctuations.

## **7.2 Debt Management Policy Statement**

We have determined that we will only borrow to finance future capital works based on intergenerational, risk management or accelerated infrastructure needs and not for recurrent or operational expenditure, and on terms appropriate to the reasonably expected life of the relevant capital assets.

## **7.3 Debt Management Policy Guidelines**

The Strategy has adopted the following strategies in relation to debt management:

- Actual borrowings are subject to the maintenance of approved financial ratios and targets;
- Borrow only where the interest and debt principal repayments can be serviced;
- Effectively manage its risks, and ensure risks undertaken are reasonable and necessary;
- Effectively manage its exposure to unfavourable interest rate changes; and
- Regularly engage Queensland Treasury Corporation for independent advice on financial sustainability.

## **7.4 Key Risks, Issues and Mitigation Strategies**

The Strategy has identified the following risks in relation to asset and services management which have been assessed in accordance with Council's adopted Enterprise Risk management framework.



### Material Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Improved processes around financing of capital projects results in optimisation of borrowings	Likely	Medium	High

### Less Significant Risks and Opportunities

Risk / Opportunities	Likelihood	Consequence	Risk Category
Ability to repay borrowing costs is limited by the operational performance of Council	Unlikely	Major	Medium

Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks the following actions are proposed:

- An annual Strategy review will signal capital planning and borrowing intentions and these will be modelled using the 10-year financial plan to gauge affordability and suitability in accordance within acceptable parameters;
- Additional research to identify the potential to capitalise interest expense; and
- Investigate the potential to restructure debt pools.

The following material risks will be placed on 'watch' before mitigation projects are initiated:

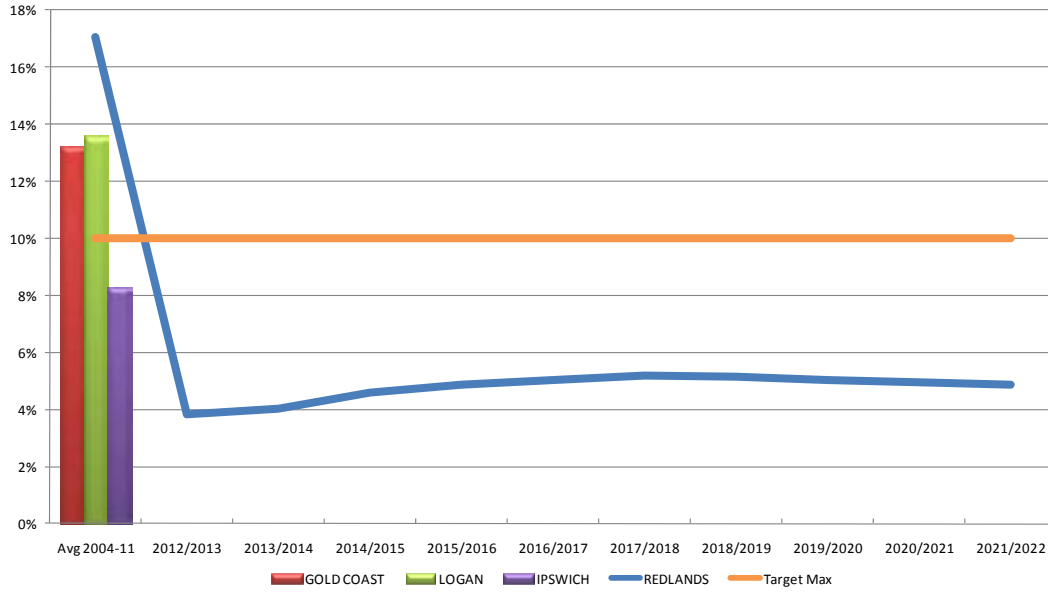
- The optimal level of cash balances held;
- The return of debt from Allconnex; and
- The short term facility with QTC for the reintegration of water.



## 7.5 Key Performance Information

The graphs below provide an historical benchmarking analysis of performance against selected neighbouring councils.

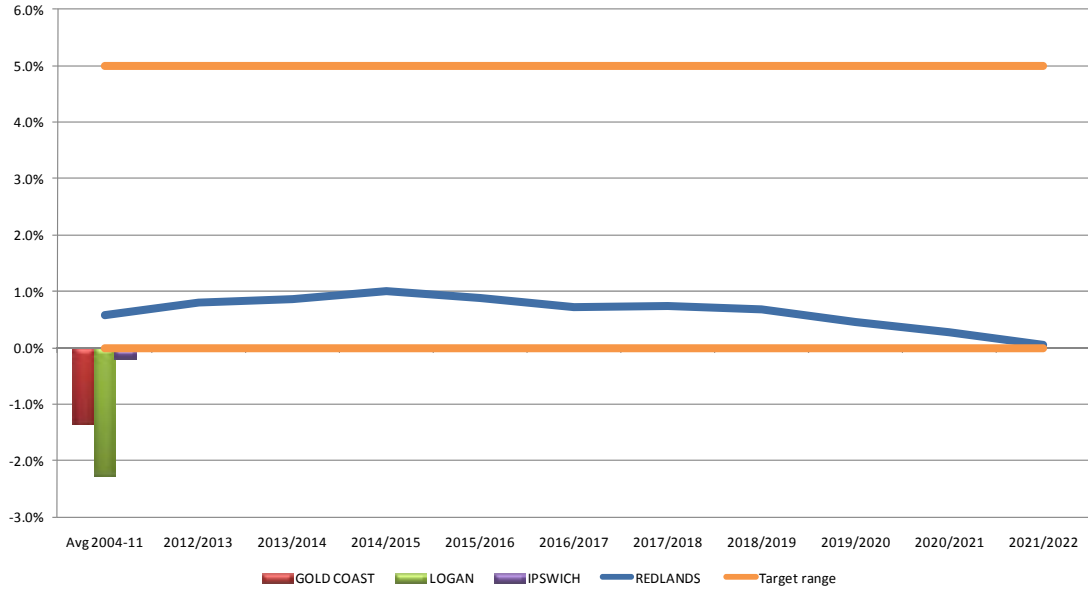
### DEBT SERVICING RATIO



In 2008/09, we were required to pay out our borrowings on our water and wastewater assets as part of water reform, hence the significant drop in debt servicing to 2011/12.



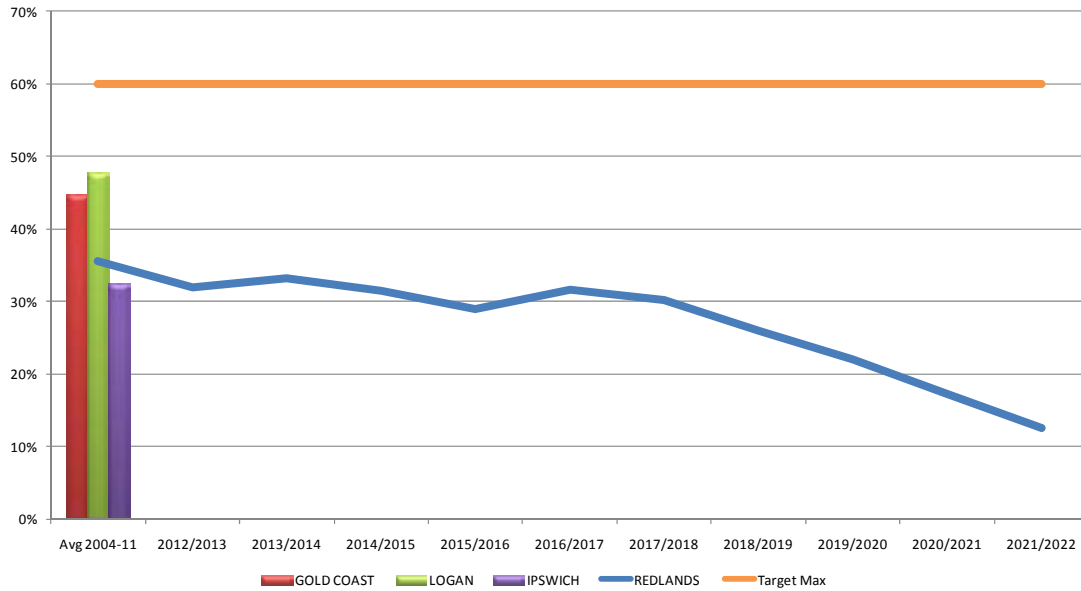
### INTEREST COVER RATIO





Similarly, our interest cover ratio improved in 2008/09 and 2009/10 due to the elimination of our borrowings on our water and wastewater assets as part of water reform, similar to Gold Coast and Logan City Councils. This ratio remains within target throughout the life of the Strategy.

### NET FINANCIAL LIABILITIES

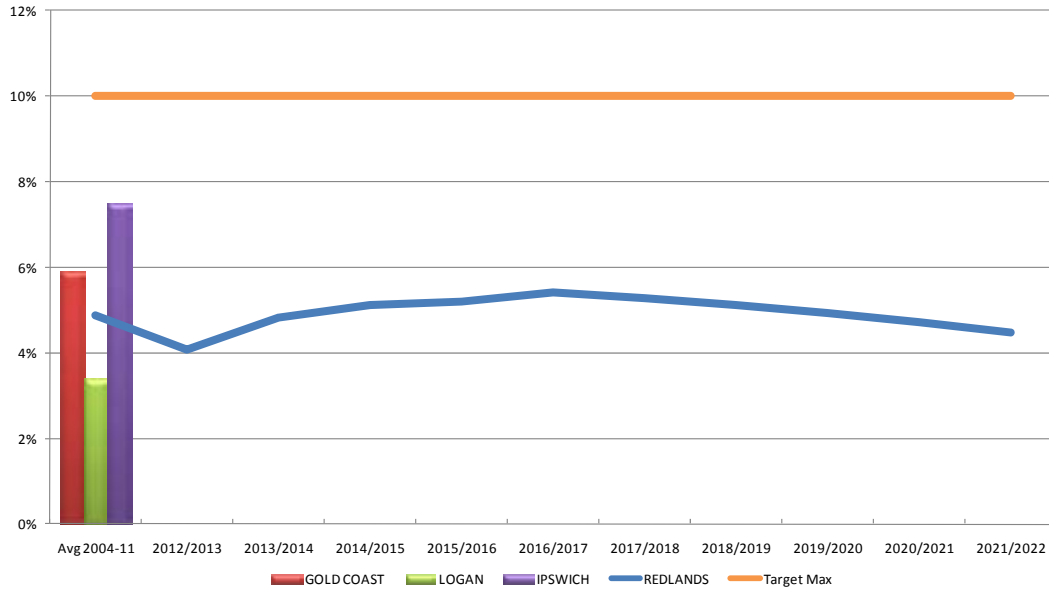


As can be seen in the above chart, our net financial liabilities have generally been considerably less than that of neighbouring councils relative to total operating revenue. The Strategy indicates this ratio increases in the short to medium term due to additional borrowing before moving below target from 2016/17.

Our borrowing, as a percentage of assets, has been below that of neighbouring councils since 2008/09. This indicator remains at a fairly consistent level throughout the life of the Strategy.



### % OF DEBT TO ASSETS





## 8. OTHER ISSUES

### 8.1 National Competition Policy

We currently comply with the National Competition Policy (NCP) where it is deemed we must comply. Council has one Type 2 Business Activity – Redland Waste Operations ('RedWaste') and a number of business activities subject to the Code of Competitive Conduct – RPAC; Caravan Parks; School Aged Care; Building Certification; Fleet and Plant; Quarries; Marine Transport, Cemeteries; and Redland Art Gallery.

The principles of the NCP are expressed as:

- Ensuring our business does not intentionally or unwittingly prevent or constrain the entry of external service providers who have the capacity or potential to deliver better quality of more efficient services;
- Removing regulations that unintentionally or unwittingly prevent or constrain suitable business investment or activity in the City;
- Better defining the purpose of our services and removing any waste and inefficiency which may exist within our business activities as a consequence of being sheltered;
- Ensuring through benchmarking that the prices of our services represent value for money and are not excessive compared to other local government areas; and
- Ensuring the assessment and the selection of service providers is not distorted by factors pertaining to ownership and are based upon the comparable efficiency of the service provider.

Redland Water will return as a department of Redland City Council on 1 July 2012 and will be a significant business activity. Legislation does not require Council to conduct a public benefit assessment.

### 8.2 Implications for Council Policy

- The framework is not just about cost minimisation, it is to ensure that the creation of a competitive environment will encourage Council to better identify and specify what it actually does, why it carries out the business and whether it should continue businesses that are in the interest of the community but not always financially sustainable in their own right (for example business activities that are beneficiaries of cross subsidisation from other business activities).
- We will continue to determine the standard and quality of each service based upon community/customer expectations and achieving best value for money irrespective of whether the service is delivered by an internal or external provider.
- By concentrating upon outcomes rather than processes, service specification is likely to encourage innovation and new solutions to meeting the needs and expectations of the community and customers.



- Clear and definitive service specifications will enable us to better monitor and assure quality and performance whether an internal or external provider delivers the service or work.
- Competitive neutrality requires us to subject our own business activities to notional tax equivalents, debt guarantee fees and return on investment as well as regulations as they apply to a private firm. At the same time, we must ensure external providers comply with statutory and Award requirements as they relate to minimum pay and conditions and safety.

Business activities should operate on a commercial basis with the objective of:

- Producing and delivering top class, innovative and competitive services in accordance with our specification and commission;
- Achieving an appropriate return on the community's investment in their operations; and
- Providing satisfying and secure employment for their staff through being competitive and dynamic.

We are committed to making our own business activities commercially viable and are prepared to further invest in these units to ensure their success especially in respect of:

- The creation of self-managing work teams;
- The development of continuous quality improvement principles;
- Improved communications;
- Training and education; and
- Encouraging and facilitating specialisation in those areas where our business activities can be expected to be highly competitive.

### **8.3 Community Service Obligations**

The Community Service Obligation (CSO) framework specifies transparency over the establishment of fee revenue relief to business activities based upon CSOs.

Such revenue streams are established to the business activities based on the following principles:

- The social objective or outcome, to be achieved by the CSO, will fall within the goals of the Corporate Plan;
- The most cost effective means of delivering/achieving the social objective will be through the establishment of a CSO and not via other means;
- The percentage of the community which will benefit from the social objective will be acknowledged during consideration for inclusion CSO programme;
- The CSO will be administered in an accountable and performance based environment;



- The CSO will not invite an unfair advantage to Council and its business units where there is established competition;
- The CSO for Council will be reviewed annually as part of the annual budget process;
- The measurement of CSO will be disclosed as revenue and will represent the avoidable cost or revenue forgone of any CSO less any revenue arising from, carrying out CSO provided; and
- Payment transfers will be established monthly as part of the end of month financial accounting process.

#### **8.4 Water Community Service Obligations**

Following the introduction of Allconnex Water on 1 July 2010, Redland City Council resolved to continue to support previous Community Service Obligations for Water and Wastewater. The support to the community continued into the 2011/12 financial year and on the return of Redland Water on 1 July 2012, the Redland Water CSO policies will be reviewed and updated and reinstated as necessary.



## 9. APPENDIX 1 - PARAMETERS

PARAMETERS	Growth Factors	Forecast 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
<b>Growth Factors</b>											
General Rates		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Waste		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
General Fees and Charges		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Employee Costs		0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
General Operating Costs		0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
General Capital Expenditure		0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Efficiency Target % - Employees	Employees	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Efficiency Target % - Goods & Services	Goods & Services	10.99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Price Increases</b>											
RCC CPI		4.80%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Underlying CPI %		3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
EBA		4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
General Rates		4.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
SMBI Residential - Own-occ (20%) & Vacant (80%)	2012/13 only	2.90%									
SMBI Residential - Investment (Non own - Occ)	2012/13 only	4.50%									
Landfill Remediation Charge	2012/13 only	17.90%									
Environment Special Charge	2012/13 only	3.00%									
Waste	Waste Modelling %	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Fees and Charges	RCC CPI%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Employee Costs	EBA %	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
General Operating Costs	Underlying CPI%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
<b>Financial Strategy Amendments</b>											
Residential Rates		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment Properties & Developable Land		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial/Industrial Rates		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SMBI Rates		0.00%	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Canals Special Charge		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Waste Utility Charge		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Environment Special Charge		0.00%	0.00%	0.00%	0.00%	-3.47%	-5.25%	-5.00%	-5.00%	-5.00%	-5.00%
Landfill Remediation Charge		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Climate Change Separate Charge		0.00%	0.00%	0.00%	0.00%	0.00%	0.90%	0.80%	0.00%	0.00%	0.00%
Parking Charges		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Marine Transport Revenue		10.00%	15.00%	20.00%	25.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial Activity Revenue - \$'000		125,000	125,000	375,000	375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Increase to min general rate - \$'000		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Reintegration of Water</b>											
Water Revenue		46,008	49,908	53,819	57,739	61,671	71,383	78,521	86,373	95,011	104,512
Wastewater Revenue		37,396	37,770	38,148	38,529	38,914	40,913	42,754	44,678	46,689	48,790
Fees & Charges		1,179	1,249	1,324	1,403	1,487	1,576	1,670	1,770	1,876	1,988
Interest		355	481	569	703	936	1,166	1,236	1,310	1,388	1,471
CSO		648	687	728	771	817	866	905	946	988	1,033
Other Revenue		1,599	1,694	1,796	1,903	2,017	2,137	2,265	2,400	2,544	2,696
Water Employees Costs		7,381	7,753	8,143	8,554	8,985	9,438	9,914	10,413	10,938	11,489
Water G&S		27,618	31,032	34,375	37,656	40,888	49,803	54,783	60,262	66,288	72,917
Water Depreciation		16,963	16,764	16,614	16,511	16,487	16,331	16,331	16,331	16,331	16,331
Other (CN)		738	774	812	852	895	939	981	1,025	1,072	1,120
Net Internal		2,647	2,759	2,875	2,996	3,121	3,252	3,398	3,551	3,711	3,878
Therotal debt of \$300M	RCC Internal Interest	14,950	14,950	14,950	14,950	14,950	14,950	14,950	14,950	14,950	14,950
	Operating result	<b>16,888</b>	<b>17,757</b>	<b>18,615</b>	<b>19,529</b>	<b>20,516</b>	<b>23,328</b>	<b>26,993</b>	<b>30,944</b>	<b>35,205</b>	<b>39,804</b>
	Tax 30%	6,930	7,239	7,545	7,871	8,219	9,118	10,273	11,517	12,855	14,297
	Dividend 50%	4,979	5,259	5,535	5,829	6,148	7,105	8,360	9,714	11,175	12,753
	Surplus a. T&D	<b>4,979</b>	<b>5,259</b>	<b>5,535</b>	<b>5,829</b>	<b>6,148</b>	<b>7,105</b>	<b>8,360</b>	<b>9,714</b>	<b>11,175</b>	<b>12,753</b>
	Water Capital Revenue	1,716	1,716	1,716	1,716	1,716	1,716	1,716	1,716	1,716	1,716
	WW Capital Revenue	4,497	4,656	4,820	4,990	5,166	5,348	5,535	5,729	5,929	6,137
	<b>Consolidated result</b>	<b>34,575</b>	<b>35,553</b>	<b>36,524</b>	<b>37,556</b>	<b>38,665</b>	<b>41,603</b>	<b>45,418</b>	<b>49,525</b>	<b>53,950</b>	<b>58,719</b>
Forecast Error	2012/13 only	85.00%	-	-	-	-	-	-	-	-	-



## 10. APPENDIX 2 – OPERATING STATEMENT

LONG TERM FINANCIAL MODEL - OPERATING STATEMENT										
	Proposed Budget 2012/2013 '\$000	Estimate Year 2 2013/2014 '\$000	Estimate Year 3 2014/2015 '\$000	Estimate Year 4 2015/2016 '\$000	Estimate Year 5 2016/2017 '\$000	Estimate Year 6 2017/2018 '\$000	Estimate Year 7 2018/2019 '\$000	Estimate Year 8 2019/2020 '\$000	Estimate Year 9 2020/2021 '\$000	Estimate Year 10 2021/2022 '\$000
<b>Revenue</b>										
Rates charges	80,478	85,347	90,510	96,441	102,762	109,498	116,677	124,328	132,483	141,174
Utility charges	100,180	118,402	124,203	130,093	132,842	142,626	149,336	160,387	172,369	185,369
Pensioner Remissions - Mainland	(2,470)	(2,619)	(2,778)	(2,946)	(3,124)	(3,313)	(3,513)	(3,726)	(3,951)	(4,190)
Pensioner Remissions - SMBI	(434)	(460)	(488)	(533)	(581)	(634)	(691)	(754)	(822)	(897)
Less remissions	(2,904)	(3,079)	(3,266)	(3,478)	(3,705)	(3,946)	(4,204)	(4,480)	(4,774)	(5,087)
Fees & charges	17,660	18,883	20,414	22,045	23,257	24,536	25,885	27,309	28,812	28,290
Subsidies & grants - operating	7,390	7,837	8,311	8,814	9,347	9,912	10,512	11,148	11,823	12,538
Contributions - operating	266	282	300	318	337	357	379	402	426	452
Interest	2,851	3,054	3,425	3,989	4,549	4,612	4,582	5,030	5,415	5,987
Allconnex Investment Returns	0	0	0	0	0	0	0	0	0	0
Other revenue	5,011	5,235	5,472	5,718	5,977	6,248	6,532	6,829	7,141	7,468
	<b>210,931</b>	<b>235,960</b>	<b>249,369</b>	<b>263,941</b>	<b>275,366</b>	<b>293,843</b>	<b>309,699</b>	<b>330,954</b>	<b>353,696</b>	<b>376,191</b>
<b>Expenses</b>										
Employee costs	76,542	80,400	84,451	88,708	93,179	97,875	102,808	107,989	113,432	119,149
Goods and services	89,726	96,144	102,637	109,221	115,915	128,460	137,246	146,714	156,922	167,936
Finance Costs - Other	383	401	419	438	457	478	499	522	545	570
Other Expenditure	339	355	373	391	409	429	450	472	495	519
Net Internal Costs	(862)	(904)	(948)	(994)	(1,042)	(1,092)	(1,145)	(1,200)	(1,259)	(1,319)
	<b>166,127</b>	<b>176,396</b>	<b>186,932</b>	<b>197,763</b>	<b>208,919</b>	<b>226,150</b>	<b>239,858</b>	<b>254,496</b>	<b>270,136</b>	<b>286,854</b>
<b>Earnings before Interest, tax and depreciation (EBITD)</b>	<b>44,804</b>	<b>59,564</b>	<b>62,437</b>	<b>66,177</b>	<b>66,447</b>	<b>67,693</b>	<b>69,841</b>	<b>76,457</b>	<b>83,560</b>	<b>89,337</b>
Interest Expense	4,272	4,792	5,604	5,963	6,102	6,386	6,261	6,085	5,883	5,649
Depreciation	49,827	52,129	54,917	57,435	58,565	60,415	62,339	67,425	69,559	72,077
<b>Operating Surplus/(Deficit)</b>	<b>(9,296)</b>	<b>2,643</b>	<b>1,916</b>	<b>2,779</b>	<b>1,780</b>	<b>892</b>	<b>1,241</b>	<b>2,947</b>	<b>8,118</b>	<b>11,610</b>



# 11. APPENDIX 3 – STATEMENT OF CASH FLOWS

<b>LONG TERM FINANCIAL MODEL - CASH FLOW PROJECTIONS</b>										
	Proposed Budget 2012/2013 '\$000	Estimate Year 2 2013/2014 '\$000	Estimate Year 3 2014/2015 '\$000	Estimate Year 4 2015/2016 '\$000	Estimate Year 5 2016/2017 '\$000	Estimate Year 6 2017/2018 '\$000	Estimate Year 7 2018/2019 '\$000	Estimate Year 8 2019/2020 '\$000	Estimate Year 9 2020/2021 '\$000	Estimate Year 10 2021/2022 '\$000
<b>Receipts</b>										
Rates Charges	77,531	82,226	87,203	92,920	99,013	105,507	112,427	119,803	127,663	136,040
Utility Charges	100,124	118,343	124,143	130,033	132,782	142,566	149,276	160,326	172,307	185,306
Fees & charges	17,660	18,883	20,414	22,045	23,257	24,536	25,885	27,309	28,812	28,290
Grants and subsidies	7,390	7,837	8,311	8,814	9,347	9,912	10,512	11,148	11,823	12,538
Contributions	266	282	300	318	337	357	379	402	426	452
Allconnex Investment Returns	0	0	0	0	0	0	0	0	0	0
Other revenue	5,011	5,235	5,472	5,718	5,977	6,248	6,532	6,829	7,141	7,468
	<b>207,980</b>	<b>232,806</b>	<b>245,842</b>	<b>259,848</b>	<b>270,713</b>	<b>289,127</b>	<b>305,011</b>	<b>325,817</b>	<b>348,172</b>	<b>370,095</b>
<b>Payments</b>										
Employee costs	(76,013)	(79,850)	(83,879)	(88,113)	(92,560)	(97,232)	(102,139)	(107,293)	(112,708)	(118,396)
Materials & services	(88,341)	(94,702)	(101,127)	(107,644)	(114,268)	(126,739)	(135,448)	(144,836)	(154,961)	(165,887)
Other expenses	(339)	(355)	(373)	(391)	(409)	(429)	(450)	(472)	(495)	(519)
	<b>(164,693)</b>	<b>(174,906)</b>	<b>(185,379)</b>	<b>(196,147)</b>	<b>(207,237)</b>	<b>(224,400)</b>	<b>(238,037)</b>	<b>(252,601)</b>	<b>(268,163)</b>	<b>(284,801)</b>
Interest	2,851	3,054	3,425	3,989	4,549	4,612	4,582	5,030	5,415	5,987
Finance costs	(4,656)	(5,193)	(6,023)	(6,401)	(6,559)	(6,864)	(6,760)	(6,607)	(6,428)	(6,219)
<b>NET CASH FLOW - OPERATIONS</b>	<b>41,483</b>	<b>55,760</b>	<b>57,866</b>	<b>61,290</b>	<b>61,466</b>	<b>62,474</b>	<b>64,796</b>	<b>71,639</b>	<b>78,996</b>	<b>85,061</b>
<b>INVESTING ACTIVITIES</b>										
Payments - Property, Plant & Equipment	(65,475)	(80,963)	(74,043)	(75,517)	(86,689)	(80,549)	(68,496)	(75,912)	(79,611)	(83,927)
Proceeds - Capital subsidies & grants and Contributions	10,747	11,065	13,301	11,581	13,951	16,239	11,193	11,625	10,742	12,719
Proceeds - disposal non current assets	4,424	4,010	4,020	5,732	1,726	1,180	2,163	1,406	2,743	1,401
<b>NET CASH FLOW - INVESTING ACTIVITIES</b>	<b>(50,304)</b>	<b>(65,888)</b>	<b>(56,723)</b>	<b>(58,204)</b>	<b>(71,012)</b>	<b>(63,129)</b>	<b>(55,140)</b>	<b>(62,882)</b>	<b>(66,126)</b>	<b>(69,808)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
Proceeds from borrowing - QTC	14,141	20,471	13,349	10,289	13,927	7,497	7,500	8,000	8,500	9,000
Repayment of borrowing - QTC	(3,792)	(4,671)	(5,885)	(6,847)	(7,727)	(8,821)	(9,688)	(10,606)	(11,600)	(12,624)
<b>NET CASH FLOW - FINANCING ACTIVITIES</b>	<b>10,349</b>	<b>15,800</b>	<b>7,464</b>	<b>3,442</b>	<b>6,200</b>	<b>(1,324)</b>	<b>(2,188)</b>	<b>(2,606)</b>	<b>(3,100)</b>	<b>(3,624)</b>



## APPENDIX 3 (CONTD) – BALANCE SHEET

LONG TERM FINANCIAL MODEL - PROJECTED BALANCE SHEET										
	2012/2013 \$'000	2013/2014 \$'000	2014/2015 \$'000	2015/2016 \$'000	2016/2017 \$'000	2017/2018 \$'000	2018/2019 \$'000	2019/2020 \$'000	2020/2021 \$'000	2021/2022 \$'000
<b>CURRENT ASSETS</b>										
Cash & Investments	51,451	57,123	65,730	72,257	68,911	66,933	74,401	80,552	90,322	101,952
Accounts Receivable	10,069	10,169	10,271	10,374	10,478	10,582	10,688	10,795	10,903	11,012
Inventories	844	844	844	844	844	844	844	844	844	844
Land Held for Resale	0	0	0	0	0	0	0	0	0	0
Prepaid Expenses	1,238	1,285	1,334	1,385	1,438	1,492	1,549	1,608	1,669	1,732
Assets - Held for Sale	0	0	0	0	0	0	0	0	0	0
<b>Total Current Assets</b>	<b>63,602</b>	<b>69,422</b>	<b>78,179</b>	<b>84,860</b>	<b>81,670</b>	<b>79,851</b>	<b>87,482</b>	<b>93,799</b>	<b>103,738</b>	<b>115,540</b>
<b>NON CURRENT ASSETS</b>										
Accounts Receivable	43	43	43	43	43	43	43	43	43	43
Property, Plant and Equipment	1,420,498	1,455,928	1,482,228	1,508,101	1,544,678	1,573,719	1,589,260	1,607,628	1,628,080	1,650,872
Investment in Alconnex	421,245	421,245	421,245	421,245	421,245	421,245	421,245	421,245	421,245	421,245
Investment in SEQ Regional Facility	73	73	73	73	73	73	73	73	73	73
<b>Total Non Current Assets</b>	<b>1,841,859</b>	<b>1,877,289</b>	<b>1,903,589</b>	<b>1,929,462</b>	<b>1,966,039</b>	<b>1,995,080</b>	<b>2,010,621</b>	<b>2,028,989</b>	<b>2,049,441</b>	<b>2,072,233</b>
<b>TOTAL ASSETS</b>	<b>1,905,462</b>	<b>1,946,710</b>	<b>1,981,768</b>	<b>2,014,322</b>	<b>2,047,709</b>	<b>2,074,932</b>	<b>2,098,103</b>	<b>2,122,787</b>	<b>2,153,179</b>	<b>2,187,773</b>
<b>CURRENT LIABILITIES</b>										
Accounts Payable	14,412	14,959	15,528	16,118	16,730	17,366	18,026	18,711	19,422	20,160
Current Employee Provisions	4,369	4,544	4,726	4,915	5,111	5,316	5,528	5,749	5,979	6,219
Current Loans	4,671	5,885	6,847	7,727	8,821	9,688	10,606	11,600	12,624	0
Current Landfill Rehabilitation Provisions	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Other Liabilities	1,087	1,125	1,168	1,212	1,258	1,306	1,355	1,407	1,460	1,516
<b>Total Current Liabilities</b>	<b>28,039</b>	<b>30,013</b>	<b>31,768</b>	<b>33,471</b>	<b>35,420</b>	<b>37,175</b>	<b>39,016</b>	<b>40,967</b>	<b>42,985</b>	<b>31,394</b>
<b>NON CURRENT LIABILITIES</b>										
Non Current Loans	73,238	87,824	94,326	96,888	101,994	99,803	96,697	93,097	88,973	97,973
Non Current Employee Provisions	9,382	9,757	10,147	10,553	10,975	11,414	11,871	12,346	12,840	13,353
Non Current Landfill Rehabilitation Provisions	19,896	19,896	19,896	19,896	19,896	19,896	19,896	19,896	19,896	19,896
Other Liabilities	345	345	345	345	345	345	345	345	345	345
<b>Total Non Current Liabilities</b>	<b>102,861</b>	<b>117,822</b>	<b>124,714</b>	<b>127,682</b>	<b>133,211</b>	<b>131,459</b>	<b>128,809</b>	<b>125,684</b>	<b>122,054</b>	<b>131,568</b>
<b>TOTAL LIABILITIES</b>	<b>130,899</b>	<b>147,835</b>	<b>156,482</b>	<b>161,153</b>	<b>168,631</b>	<b>168,634</b>	<b>167,825</b>	<b>166,651</b>	<b>165,039</b>	<b>162,962</b>
<b>NET ASSETS</b>	<b>1,774,562</b>	<b>1,798,875</b>	<b>1,825,286</b>	<b>1,853,169</b>	<b>1,879,078</b>	<b>1,906,298</b>	<b>1,930,279</b>	<b>1,956,136</b>	<b>1,988,139</b>	<b>2,024,811</b>
<b>COMMUNITY EQUITY</b>										
Retained Earnings Account	1,740,401	1,769,778	1,795,324	1,823,785	1,851,177	1,883,077	1,909,486	1,939,214	1,978,165	2,016,283
Cash Reserves	34,162	29,097	29,962	29,383	27,902	23,221	20,793	16,923	9,974	8,528
<b>TOTAL COMMUNITY EQUITY</b>	<b>1,774,562</b>	<b>1,798,875</b>	<b>1,825,286</b>	<b>1,853,169</b>	<b>1,879,078</b>	<b>1,906,298</b>	<b>1,930,279</b>	<b>1,956,136</b>	<b>1,988,140</b>	<b>2,024,811</b>



7

## 12. APPENDIX 4 – KEY PERFORMANCE INDICATORS

### EXECUTIVE SUMMARY

Based on the 2011-2012 Revised Budget including carryovers

Financial Stability Ratios (RCC)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
<b>Level of dependence on General Rate Revenue</b> (Excludes Utility Revenues) - Threshold set < 37.5%	36.8%	34.9%	35.0%	35.2%	36.0%	35.9%	36.3%	36.2%	36.1%	36.2%
<b>Ability to pay our bills - Current Ratio</b> Target between 1.1 and 4.1	2.27	2.31	2.46	2.54	2.31	2.15	2.24	2.29	2.41	3.68
<b>Ability to repay our debt - Debt Servicing Ratio (%)</b> Target less than or equal to 10%	3.82%	4.01%	4.61%	4.85%	5.02%	5.18%	5.15%	5.04%	4.94%	4.86%
<b>Cash Balance - \$ 000s</b>	51,451	57,123	65,730	72,257	68,911	66,933	74,401	80,552	90,322	101,952
<b>Cash Balances - cash capacity in months</b> Target 3 to 4 months	3.65	3.81	4.12	4.28	3.87	3.47	3.65	3.73	3.95	4.20
<b>Longer term financial stability - debt to asset ratio (%)</b> Target less than or equal to 10%	4.09%	4.81%	5.11%	5.19%	5.41%	5.28%	5.11%	4.93%	4.72%	4.48%
<b>Operating Performance</b> Target greater than or equal to 20%	19.7%	23.6%	23.2%	23.2%	22.3%	21.3%	20.9%	21.7%	22.3%	22.6%



## APPENDIX 4 (CONTD)

Measures of Sustainability	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
<b>Operating Surplus Ratio</b> Target between 0% and 10%	-4.41%	1.12%	0.77%	1.05%	0.65%	0.30%	0.40%	0.89%	2.30%	3.09%
<b>Net Financial Liabilities Ratio</b> Less than or equal to 60%	31.90%	33.23%	31.40%	28.91%	31.58%	30.21%	25.94%	22.01%	17.33%	12.61%
<b>Interest Coverage Ratio</b> Between 0% and 5%	0.80%	0.85%	1.00%	0.88%	0.71%	0.75%	0.68%	0.46%	0.27%	0.05%
<b>Asset Sustainability Ratio (Infrastructure Assets Only)</b> Greater than 90%	52.80%	64.97%	49.87%	59.95%	44.96%	46.95%	46.03%	43.25%	45.20%	45.00%
<b>Asset Consumption Ratio (Infrastructure Assets Only)</b> Between 40% and 80%	66.77%	66.00%	64.89%	63.90%	62.62%	61.81%	60.58%	59.55%	58.45%	59.00%
<b>Asset Renewal Funding Ratio</b> Greater than 90%	Measure to follow									



## APPENDIX 4 (CONTD)

### Key Performance Indicators:

Ratio	Method of calculation	Significance of the ratio
<b>Level of Dependence on General Rates Revenue:</b> Target less than 37.5%	$\frac{\text{General Rates – Pensioner Remissions}}{\text{Total Operating Revenue – Gain on Sale of Developed Land}}$	This ratio measures RCC's reliance on operating revenue from the general rate.
<b>Current Ratio:</b> Target between 1:1 and 4:1	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This measures the extent to which a council has liquid assets available to meet short-term financial obligations.
<b>Debt Servicing Ratio:</b> Target less than or equal to 10%	$\frac{\text{Interest Expense + Loan Redemption}}{\text{Total Operating Revenue – Gain on Sale of Developed Land}}$	This indicates RCC's ability to meet current debt instalments with recurrent revenue.
<b>Cash Balance - \$M:</b> Target greater than \$30M	Cash Held at Period End	The total cash held at the end of the period, YTD.
<b>Cash Capacity in Months:</b> Target 3 to 4 Months	$\frac{\text{Cash Held at Period End}}{[(\text{Cash Operating Costs} + \text{Interest Expense}) / \text{Period in Year}]}$	This provides an indication as to the number of months 'cash held at period end' would cover for recurrent expenses.
<b>Debt to Asset Ratio:</b> Target less than or equal to 10%	$\frac{\text{Current and Non-current Loans}}{\text{Total Assets}}$	This is total debt as a percentage of total assets, to see what percentage of long term debt could be covered by total assets.
<b>Operating Performance:</b> Target greater than or equal to 20%	$\frac{\text{Net Cash from Operations + Interest Revenue and Expense}}{\text{Cash Operating Revenue + Interest Revenue}}$	This provides an indication of RCC's cash flow capabilities.
<b>Operating Surplus Ratio:</b> Target between 0% and 10%	$\frac{\text{Net Operating Surplus}}{\text{Total Operating Revenue}}$	This is an indicator of the extent to which revenues raised cover operation expenses only or are available for capital funding purposes.
<b>Net Financial Liabilities:</b> Target less than or equal to 60%	$\frac{\text{Total Liabilities – Current Assets}}{\text{Total Operating Revenue}}$	This is an indicator of the extent to which the net financial liabilities of a Council can be serviced by its operating revenues.
<b>Interest Cover Ratio:</b> Target between 0% and 5%	$\frac{\text{Net Interest Expense on Debt Service}}{\text{Total Operating Revenue}}$	This ratio demonstrates the extent to which operating revenues are being used to meet the financing charges.
<b>Asset Consumption Ratio:</b> Target between 40% and 80%	$\frac{\text{WDV of Infrastructure Assets}}{\text{Gross Current Replacement Cost of Infrastructure Assets}}$	The average proportion of as new value remaining in the infrastructure assets. This ratio seeks to highlight the aged condition of our stock of physical assets.
<b>Asset Sustainability Ratio:</b> Target greater than 90%	$\frac{\text{Capital Expenditure on the Replacement of Assets (renewals)}}{\text{Depreciation Expense}}$	This ratio indicates whether a council is renewing or replacing existing non-financial assets at the same rate that its overall stock of assets is wearing out.
<b>Asset Renewal Funding Ratio:</b> Target greater than 90%	$\frac{\text{NPV of Planned Capital Expenditures on Renewals over 10 years}}{\text{NPV of the Required Capital Expenditures on Renewals over the Same Period}}$	This represents the extent to which the <i>required</i> capital expenditures on renewals per the Asset Management Plans have been incorporated into the ten year financial model.



# 13. APPENDIX 5 – TEN YEAR CAPITAL PROGRAMME

REDLAND CITY COUNCIL												
10 YEAR CAPITAL PROGRAMME SUMMARY		Current	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Refreshed 02-Nov-2011		Budget 2011/2012	Year 1 2012/2013	Year 2 2013/2014	Year 3 2014/2015	Year 4 2015/2016	Year 5 2016/2017	Year 6 2017/2018	Year 7 2018/2019	Year 8 2019/2020	Year 9 2020/2021	Year 10 2021/2022
<b>1000 - Governance</b>												
Total Expenditure		10,500	15,900	52,490	16,925	17,547	18,188	18,847	19,526	20,226	20,946	21,688
Total Cap Revenue		0	0	0	0	0	0	0	0	0	0	0
Associated Operating Costs		0	0	0	0	0	0	0	0	0	0	0
Total Loans		0	0	0	0	0	0	0	0	0	0	0
Total Reserves		0	0	0	0	0	0	0	0	0	0	0
Sub-Total (Exc. Reserves)		10,500	15,900	52,490	16,925	17,547	18,188	18,847	19,526	20,226	20,946	21,688
<b>2000 - City Services</b>												
Total Expenditure		4,385,569	3,763,482	5,460,957	6,596,953	6,881,685	4,405,160	4,252,829	4,575,604	4,773,869	5,125,049	5,546,870
Total Cap Revenue		-631,809	-643,114	-790,584	-697,270	-730,226	-717,600	-858,172	-797,164	-817,463	-836,484	-1,009,578
Associated Operating Costs		0	0	0	0	0	0	0	0	0	0	0
Total Loans		0	0	0	0	0	0	0	0	0	0	0
Total Reserves		-320,000	-185,000	-100,000	0	0	0	0	0	0	0	0
Sub-Total (Exc. Reserves)		3,753,760	3,120,368	4,670,373	5,899,683	6,151,459	3,687,560	3,394,457	3,778,440	3,956,406	4,288,565	4,537,292
<b>4000 - 'Planning &amp; Policy' - TRUNK</b>												
Total Expenditure		16,004,864	16,270,871	12,526,231	13,394,779	15,628,527	15,974,128	23,388,504	15,255,264	19,721,715	19,187,479	21,009,041
Total Cap Revenue		-9,186,975	-9,812,665	-10,141,490	-10,234,417	-10,765,010	-13,769,114	-15,732,639	-10,589,944	-11,463,498	-10,920,000	-11,302,200
Associated Operating Costs		3,560	1,295,712	1,423,516	1,295,371	1,433,624	1,411,636	1,412,803	1,605,836	2,356,492	1,589,200	0
Total Loans		0	0	0	0	0	0	0	0	0	0	0
Total Reserves		467,334	156,243	2,134,440	3,319,817	600,000	2,363,114	933,407	888,538	913,690	820,000	848,700
Sub-Total (Exc. Reserves)		6,821,449	7,753,918	3,808,257	4,455,733	6,297,141	3,616,651	9,068,668	6,271,156	10,614,709	9,856,679	9,706,841
<b>4000 - 'Planning &amp; Policy' - NON-TRUNK</b>												
Total Expenditure		29,240,530	28,467,286	42,757,750	32,860,292	29,955,787	34,109,779	31,779,867	23,515,148	27,420,990	26,879,515	29,821,034
Total Cap Revenue		-2,132,371	-3,344,255	-3,232,425	-5,568,202	-3,349,650	-2,599,836	-2,594,030	-2,881,896	-2,783,771	-1,870,835	854,548
Associated Operating Costs		7,374	327,605	640,103	623,000	544,527	546,000	736,000	568,000	876,000	428,000	0
Total Loans		0	0	0	0	0	0	0	0	0	0	0
Total Reserves		-6,354,057	-11,555,459	-10,800,346	-7,587,706	-6,431,129	-6,615,347	-8,305,084	-8,693,153	-9,312,353	-10,343,464	-7,898,352
Sub-Total (Exc. Reserves)		27,115,533	25,450,616	40,165,428	27,917,090	27,150,664	32,055,943	29,930,837	21,201,252	25,513,219	25,436,681	30,675,582
<b>5000 - Corporate Services</b>												
Total Expenditure		3,636,069	6,789,343	7,264,955	7,321,611	8,756,684	10,444,073	6,045,140	8,206,032	6,115,577	9,283,450	6,112,000
Total Cap Revenue		-1,095,625	-1,923,569	-1,509,694	-1,519,787	-3,232,033	-1,725,570	-1,179,936	-2,162,747	-1,405,570	-2,743,317	-1,400,500
Associated Operating Costs		0	0	0	0	0	0	0	0	0	0	0
Total Loans		-13,000,000	-14,141,000	-20,471,000	-13,349,000	-7,289,000	-8,927,000	-7,497,000	-224,000	-271,000	-410,000	-410,000
Total Reserves		0	0	0	0	0	0	0	0	0	0	0
Sub-Total (Exc. Reserves)		-10,459,556	-9,275,226	-14,715,739	-7,547,176	-1,764,349	-208,497	-2,631,796	5,819,285	4,439,007	6,130,133	4,301,500
<b>7000 - Environment Planning &amp; Development</b>												
Total Expenditure		29,300	44,021	0	50,000	0	0	0	0	0	0	0
Total Cap Revenue		0	0	0	0	0	0	0	0	0	0	0
Associated Operating Costs		0	0	0	0	0	0	0	0	0	0	0
Total Loans		0	0	0	0	0	0	0	0	0	0	0
Total Reserves		0	0	0	0	0	0	0	0	0	0	0
Sub-Total (Exc. Reserves)		29,300	44,021	0	50,000	0	0	0	0	0	0	0
<b>Redland City Council</b>												
Total Expenditure		53,306,831	55,350,883	68,062,383	60,240,561	61,240,230	64,951,328	65,483,986	51,571,574	58,052,377	60,496,439	62,510,633
Total Cap Revenue		-13,046,780	-15,723,603	-15,674,193	-18,017,676	-18,076,919	-18,812,120	-20,354,777	-16,431,751	-16,470,302	-16,370,636	-12,857,730
Associated Operating Costs		10,934	1,623,317	2,063,619	1,918,371	1,957,636	2,148,803	2,173,836	3,232,492	2,017,200	2,017,200	0
Total Loans		-13,000,000	-14,141,000	-20,471,000	-13,349,000	-7,289,000	-8,927,000	-7,497,000	-224,000	-271,000	-410,000	-410,000
Total Reserves		-6,206,723	-11,584,216	-8,565,906	-4,267,889	-5,831,129	-4,252,233	-7,371,677	-7,804,615	-8,398,673	-9,523,464	-7,049,652



## 14. APPENDIX 6 – GLOSSARY OF TERMS

**CPI** - Consumer Price Index, Australian Bureau of Statistics CPI (Brisbane)

**RCC CPI** - Redland City Council Consumer Price Index, weighted index based on local costs and our capital programme for the current year

**General Operating Costs** – Expenses of an operating nature that are not driven by other parameters

**General Capital Expenses** - Expenses of a capital nature that are not driven by other parameters

**Marine Transport Revenue** – Revenue from jobs categorized in the works programme as 'Marine Activities or Projects' with a transport component

**Commercial Activity Revenue** – Revenue from business activities that have been branded as commercial



## 15. APPENDIX 7 – RCC CPI CALCULATION

<b>RCC - Blended CPI Calculation - 2011/12</b>			
<b>Cost</b>	<b>Index %</b>	<b>Expense Proportion</b>	<b>Weighted CPI %</b>
General	3.5%	48.29%	1.7%
General Construction (LGAQ)	8.7%	3.89%	0.3%
Roads & Bridges (LGAQ)	10.4%	8.37%	0.9%
Employee (RCC EBA)	4.0%	39.45%	1.6%
		100.00%	4.5%