Financial Strategy
2017–2027

MAKE A
DIFFERENCE
MAKE IT
COUNT

Redland
CITY COUNCIL

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Document Version Control

Version	Date	Change Description	Author
1.0	12 September 2016	Roll forward from previous year, update with recent developments and propose new risks or opportunities. Align layout to financial statements.	Matthew O'Connor
1.1	12 June 2017	Incorporate final 2017-18 budget and forecast 10 year CAPEX and revised operating assumptions.	Matthew O'Connor

1. Executive Summary and Overview

1.1 Executive Summary

1.1.1 The Financial Strategy and Long-Term Financial Forecast

The Financial Strategy (Strategy) is Council's long-term financial plan that is underpinned by a series of policies, plans, risk 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 and is reviewed annually with the inclusion of a Long-Term Financial Forecast (LTFF) in accordance with section 171 of the *Local Government Regulation 2012* (Regulation).

A key component of the Strategy is the Long-Term Financial Forecast (LTFF). The LTFF is Council's ten year financial forecast which is underpinned by a long term financial model and includes income, expenditure, cash flow projections, assets, liabilities and community equity. Council refers to this model when considering financial decisions, for example new borrowings, long-term operational projections as well as capital expenditure forecasts. The LTFF is revised following formal budget reviews, government announcements that will impact on Council and also in conjunction with the annual budget development process.

Council's Financial Strategy and Long-Term Financial Forecast are elements within our broader Financial Management System that includes the:

- Corporate Plan
- Long-Term Asset and Service Management Plans (ASMPs)
- Annual Budgets
- Operational Plans
- Financial Policies
- Ten Year Capital Program (input to the long-term financial forecast).

Outputs from the Ten Year Financial Model – Key Performance Indicators

LONG-TERM FINANCIAL FORECAST – MEASURES OF SUSTAINABILITY										
	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21	Year 5 2021-22	Year 6 2022-23	Year 7 2023-24	Year 8 2024-25	Year 9 2025-26	Year 10 2026-27
Operating Surplus Ratio	-4.26%	0.71%	0.56%	0.55%	1.41%	2.32%	2.84%	3.93%	4.26%	6.85%
Asset Sustainability Ratio (Infrastructure Assets Only)	59.25%	80.19%	71.10%	49.63%	52.80%	52.69%	53.68%	43.20%	40.40%	39.77%
Net Financial Liabilities Ratio	-29.32%	-24.64%	-23.30%	-30.40%	-37.79%	-46.79%	-61.57%	-79.16%	-98.50%	-118.27%

LONG-TERM FINANCIAL FORECAST – FINANCIAL STABILITY RATIOS										
	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21	Year 5 2021-22	Year 6 2022-23	Year 7 2023-24	Year 8 2024-25	Year 9 2025-26	Year 10 2026-27
Level of Dependence on General Rate Revenue	33.93%	34.86%	35.07%	35.36%	35.87%	36.22%	36.55%	36.76%	37.03%	37.12%
Ability to Pay our Bills - Current Ratio	3.79	4.92	4.70	5.00	5.39	6.83	8.30	10.01	12.51	15.26
Ability to Repay our Debt - Debt Servicing Ratio	2.99%	2.87%	2.86%	2.97%	2.99%	2.84%	1.25%	1.20%	1.15%	0.57%
Cash Balance - $000s	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702	467,491
Cash Balances - Cash Capacity in Months	7.51	6.77	6.78	7.49	8.27	9.33	11.57	14.32	17.11	20.53
Longer term Financial Stability - Debt to Asset Ratio	1.55%	1.65%	1.66%	1.40%	1.12%	0.83%	0.71%	0.59%	0.47%	0.41%
Operating Performance	17.69%	20.35%	22.24%	22.87%	23.69%	24.46%	24.90%	25.51%	25.02%	26.49%
Interest Coverage Ratio	-0.59%	-0.58%	-0.64%	-1.06%	-1.42%	-1.81%	-2.06%	-2.61%	-2.95%	-3.53%

Outputs from the Ten Year Financial Model - Summary Financial Statements

LONG-TERM FINANCIAL FORECAST – PROJECTED STATEMENT OF COMPREHENSIVE INCOME

	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Total recurrent revenue	261,639	274,066	285,838	297,474	307,921	320,147	332,904	347,331	361,676	376,648
Total capital revenue	36,226	39,947	39,498	36,958	38,544	39,921	41,496	44,659	46,848	43,072
TOTAL INCOME	297,865	314,013	325,336	334,432	346,464	360,067	374,400	391,990	408,524	419,721
Total recurrent expenses	272,775	272,127	284,252	295,826	303,590	312,728	323,459	333,697	346,262	350,857
Total capital expenses	289	(108)	138	237	334	(182)	254	353	21	492
TOTAL EXPENSES	273,064	272,018	284,390	296,063	303,924	312,546	323,713	334,050	346,283	351,349
NET RESULT	24,801	41,994	40,946	38,369	42,541	47,521	50,687	57,940	62,241	68,372
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME / (LOSS)	24,801	41,994	40,946	38,369	42,541	47,521	50,687	57,940	62,241	68,372

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF FINANCIAL POSITION

	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Total current assets	166,533	152,802	153,856	172,237	191,666	218,243	271,360	339,188	418,452	506,850
Total non-current assets	2,491,531	2,542,721	2,584,587	2,599,127	2,615,733	2,629,836	2,625,337	2,613,310	2,594,246	2,573,414
TOTAL ASSETS	2,658,064	2,695,523	2,738,443	2,771,364	2,807,399	2,848,079	2,896,697	2,952,498	3,012,698	3,080,264
Total current liabilities	43,993	31,081	32,768	34,414	35,566	31,946	32,709	33,892	33,441	33,224
Total non-current liabilities	45,817	54,193	54,481	47,387	39,729	36,508	33,676	30,354	28,763	28,175
TOTAL LIABILITIES	89,811	85,275	87,249	81,801	75,295	68,454	66,384	64,245	62,204	61,399
NET COMMUNITY ASSETS	2,568,254	2,610,248	2,651,194	2,689,563	2,732,104	2,779,625	2,830,312	2,888,253	2,950,494	3,018,865
TOTAL COMMUNITY EQUITY	2,568,254	2,610,248	2,651,194	2,689,563	2,732,104	2,779,625	2,830,312	2,888,253	2,950,494	3,018,865

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF CASH FLOWS

	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Net cash inflow / (outflow) from operating activities	45,912	56,028	62,754	67,168	72,031	77,315	81,836	87,455	89,315	98,482
Net cash inflow / (outflow) from investing activities	(45,656)	(69,258)	(63,433)	(43,229)	(46,039)	(43,862)	(26,565)	(17,476)	(8,849)	(11,186)
Net cash inflow / (outflow) from financing activities	(3,777)	3,316	862	(6,468)	(7,354)	(7,799)	(3,046)	(3,229)	(3,421)	(1,507)
Net increase / (decrease) in cash and cash equivalents held	(3,521)	(9,914)	183	17,471	18,639	25,654	52,225	66,750	77,045	85,789
Cash and cash equivalents at beginning of the financial year	137,171	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702
Cash and cash equivalents at end of the financial year	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702	467,491

1.1.2 The Financial Strategy Objectives

The primary objective is to ensure Council remains financially sustainable as defined by section 104 of the *Local Government Act 2009* (Act):

> "A local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long-term".

The Department of Infrastructure, Local Government and Planning (Department) updated a 2013 statutory guideline in 2015 encompassing definitions and also financial sustainability targets. *'Long-term'* refers to a period of ten years or more, hence Council compiles a long-term financial model and strategy that spans ten years. *'Financial capital'* in the definition above is the productive capacity provided by the difference between current assets and current liabilities (working capital). *'Infrastructure Capital'* is the productive capacity provided by significant asset classes (roads, water, sewerage, footpaths, community buildings, etc.).

Secondary objectives of the Strategy provide specifics to support the primary objective:

- achieve financial sustainability aimed at ensuring that our recurrent (operating) revenue is sufficient to cover an efficient operating expense base including depreciation, that is, positive operational ratios
- to ensure adequate funding is available to provide efficient and effective core services to the community
- continuation of good asset management to ensure that all community assets are well maintained and are fit for purpose
- address key intergenerational 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.

Council's vision is to be *forward thinking, focused on enriching community lifestyles*. Underpinning the Vision is our Mission: *Make a difference, make it count*. Both Council's Vision and Mission demonstrate a commitment to financial sustainability through improved forecasting and being fiscally responsible with community's assets and funds.

During the last operating cycle Council identified five strategic priorities to shape the Council vision for the current local government term. While the five priorities will underpin Council's vision for this term and help shape future planning and actions, they will be developed and implemented alongside other Council responsibilities to its community. Council has further identified a sixth strategic priority to encourage innovative smart technology programs and to improve the live ability, productivity and sustainability of our cities. The six strategic priorities are:

- Economic Development
- Transport and Connectivity
- Planning Scheme
- Sports, Education and Arts
- Branding and Identity
- Digital Cities / Smart Cities

Council plans to progress these priorities through a combination of program management and business as usual activities within a portfolio management framework.

1.1.3 Organisational and Community Outcomes

We will deliver against the Strategy objectives 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
- it ensures that our planning is integrated and effective and that there is clear linkage between community expectations and service delivery within affordable limits.

1.1.4 Key Principles

We will achieve these outcomes through implementation of sections 12 and 13 of the Act. Section 12 states the responsibilities of Councillors; section 13 states the responsibilities of local government employees and includes *effective, efficient and economical management of public resources* in addition to *excellence in service delivery* and *continual improvement*.

Additionally, we will:

- maximise organisational efficiencies through the implementation of initiatives such as:
    - continued assessment of core business and service level reviews
    - reform of business service delivery modes where appropriate
    - continuing to deliver through the most efficient and effective means to reduce goods and services costs
    - challenging the priority and need for discretionary operational projects
- continuing with rating reform including applying user pays principles where it is appropriate to do so
- optimising our capital and borrowing programs to ensure delivery of projects which maximise synergies, gain economies of scale and balance the objectives of the Corporate Plan and Financial Strategy. This includes assessing borrowing levels over the medium to long term and making an assessment of the deliverability of projects
- utilising returns from cash investments to minimise financial impacts on ratepayers
- investigating the new services or types of business where appropriate and feasible to generate additional returns for Council and minimise financial impacts on ratepayers.

1.1.5 Accountability and Transparency

Council prioritises two attributes of public sector reporting to be ‘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
- applying full cost pricing to 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
- clearly linking our revenue and spending decisions to corporate plans and specific projects initiatives
- periodically 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.

1.1.6 Reviewing and Refining the Financial Strategy

The Strategy will be continually revised by:

- ensuring that any changes to corporate plans are reflected in the Strategy
- being responsive to any emerging issues and including these in our forward planning and risk assessment
- capturing the budget revisions in our LTFF and analysing the impacts of any changes on our financial stability ratios and measures of sustainability
- undertaking annual reviews of our capital and operational projects
- considering policy changes before changing our spending plans
- considering the outcomes of any future community and/or rating consultation processes.

1.2 Overview

1.2.1 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 corporate plans. In May 2015, Council adopted its 2015-2020 Corporate Plan which impacts on our aforementioned Financial Management System. 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 procurement operations.

The Strategy is influenced by:

- global, national, regional and local economic conditions
- population growth
- changes in population demographics (for example an ageing population)
- legislative and statutory requirements
- changes in regulated frameworks (water operations)
- known changes in Federal and State Government funding.

A key component of the Strategy is the LTFF which is derived from a ten year financial model. The model is reviewed regularly to ensure it aligns with Council’s adopted budgets. It is used to support resource allocation, borrowing and investment decisions and additionally provides an indication of forecast performance against financial measures.

The financial forecast contains details of the assumptions used to estimate growth rates, price increases, general rates and charges increases and also provides outputs in the form of the forecast statements. The first year of these forecast statements aligns with the adopted budget and drives the next annual budget development process by way of outlining the 'affordability envelope'. These revenue and expenditure streams are cascaded through the organisation during each annual budget development process.

The LTFF 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 Corporate Plan 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.

1.2.2 Key Assumptions

The Financial Strategy statement outputs are underpinned by the following general assumptions:

- the proposed budget for 2017-18 is the base year for the long-term financial forecast
- no growth in employee costs for the life of the model
- efficiency targets are built into operational goods and services line item although in reality may be allocated between
  - operational goods and services
  - operational employee costs
- one-off efficiency targets (in dollars) which are added in any particular year will not be escalated in subsequent years
- new borrowings are subject to change to respond to the needs of the ten year capital program, ASMPs and also the Capital Works Prioritisation Policy
- all borrowing costs are expensed, irrespective of whether Council has qualifying assets
- property, plant and equipment is based on current revised figures and subject to change post each end of year accounts finalisation when any appropriate revaluations are taken to the accounts
- provisions are based on current revised figures and subject to change post each end of year accounts finalisation when discounting rates are released
- water business modelling forms a subset of Council's whole of organisation modelling. Due to the complexities of the water business modelling and impacts from state bulk water price path, the water business is allocated its own parameters and the outputs of the water model form inputs to the whole of Council long-term financial forecast.

One of the most significant factors impacting Council's financial position is growth in rateable properties. Council has adopted parameters for the life of the forecast based on a projected growth forecast (mid series) calculated by the Queensland Government Statistician's Office (QGSO).

The Australian Bureau of Statistics Consumer Price Index (ABS CPI – Brisbane capital city) is utilised in the ten year forecast. The CPI rate is reviewed every quarter as statistics become available. Since the early 1990s, the Reserve Bank of Australia has an inflation target of between 2 and 3 per cent (on average) over the cycle. This target range is considered as a contributing factor when forecasting Council's blended CPI which draws on the Brisbane CPI.

The Enterprise Bargaining Agreement (EBA) is used for price increases associated with all employee costs where future increases are known. Council reviews its EBA every three years and the current agreement that was due to finish in 2015-16, has been extended until 30 June 2017. Projected employee cost increases include reclassifications and variances in overtime, allowances and training and are not intended to preempt EBA outcomes.

The Roads and Bridges Construction Cost Index for Queensland (R&B CCI) is sourced from the Australian Bureau of Statistics and is the index used for construction expenditure.

The Engineering Construction, Queensland index from the Office of Economic and Statistical Research is used for the ten year capital works program.

The Redland City Council Blended CPI has been applied to fees and charges and goods and services and is calculated using a weighted methodology as per the table below. The RCC Blended CPI reflects the fact that Council's costs increase in line with the

- agreed Enterprise Bargaining Agreement – fixed salary increase independent of the CPI
- capital works program – influenced more by construction indices than the CPI
- Consumer Price Index for the non-construction operational goods and services expenditure.

RCC - Blended CPI Calculation			
Cost	**Index %**	**Expense Proportion**	**Weighted CPI %**
General	1.570%	23.015%	0.361%
General Construction	4.517%	28.664%	1.295%
Roads & Bridges (5 year average)	1.451%	13.294%	0.193%
Employee	2.500%	35.028%	0.876%
		100.00%	**2.73%**

1.2.3 Financial Stability and Measures of Sustainability

A key objective of the Strategy is to achieve financial sustainability by maintaining Council's financial capital and infrastructure capital over the long-term.

Sustainability in Council can be defined as and measured by:

- ensuring healthy cash flow capabilities (*Operating Performance Ratio*)
- ensuring a reasonable operating surplus exists to fund future growth requirements (*Operating Surplus Ratio*)
- ensuring the reliance on general rates revenue is not too high, i.e. Council has diversified revenue streams (*Level of Dependence on General Rate Revenue Ratio*)
- ensuring that we have the ability to pay our bills while also ensuring the optimal level of cash is held (*Current Ratio, Cash Balance and Cash Capacity in Months Ratio*)
- ensuring that borrowing is only undertaken in an affordable manner and in line with Debt Policy (*Debt Servicing Ratio, Interest Coverage Ratio, Net Financial Liabilities Ratio and Debt to Asset Ratio*)
- ensuring that our infrastructure assets are maintained and fit for purpose (*Asset Sustainability Ratio*).

1.2.4 Financial Sustainability Summary

The three required measures of financial sustainability and a further eight adopted financial stability indicators are all within target ranges, or exceeding them, for the term of this strategy, with the exception of the operating surplus ratio in 2017-18 (-4.26%) and the Asset Sustainability Ratio.

The budgeted operating surplus ratio for 2017-18 is significantly impacted by:

- an increase in depreciation expense following significant upward asset revaluations brought to account at the close of 2015-16 financial year
- recognition of advance Financial Assistance Grant (FAG) payments from the State Government as revenue in 2016-17 resulting in reduced revenue in 2017-18
- earlier identification (in the budget) of non-capital costs associated with capital projects
- Reduction in the budgeted dividend from RIC compared to 2016-17 budget
- significant non-recurrent operating expenses relating to non-capitalisable projects such as canal dredging.

Council is aware of the need to generate positive operating results and has focused on its own operating cost structure in order to achieve this objective, whilst balancing the needs of the community.

The Asset Sustainability Ratio remains well below the target minimum of 90% as in previous forecasts. Council identifies appropriate asset renewal expenditure for each coming budget year and forecasts through Asset Service Management Plans, the expected longer term asset renewal requirements. There is currently no identified asset renewal backlog and depreciation charges recovered through operating revenues are sufficient to fund the expected renewal requirement.

Council's Asset Management Project seeks to improve and optimize the forecast of asset renewal requirements. It is anticipated that this work will produce greater alignment with accounting depreciation calculations and help to move this ratio closer to the target range over time. In addition, Council will consider the inclusion of further asset financial ratios, such as the asset renewal funding ratio and asset consumption ratio that will produce a more balanced view of the asset management position.

Council's financial sustainability has previously been reviewed (May 2013) Sustainability Review by the Queensland Treasury Corporation (QTC) in May 2013 which resulted in a rating of **Sound** with a **Neutral** outlook, unchanged from the 2010-11 Financial Year Credit Review.

The sound rating reflects Redland City Council having zero net debt as cash levels are in excess of gross debt, favourable debt servicing capacity primarily due to the low gross debt level and implementing a number of measures/initiatives (reduced involvement in non-core business, reducing operating costs) as part of moving to a balanced operating position.

The Queensland Audit Office (QAO) issued its report titled 'Forecasting Long Term Sustainability of Local Government' (Report2: 2016-17) in October 2016. The report recommended, amongst other things, that councils improve the quality of their long-term forecasts and financial planning by maintaining complete and accurate asset condition data and asset management plans and by implementing a scalable project decision making framework for all infrastructure asset investments. Council is already addressing these recommendations through its current Asset Management Project which commenced in 2017 and previous implementation of the Portfolio Management Office (PMO).

The current Asset Management Project is looking to improve the accuracy and completeness of Council's asset data for long-term planning and forecasting, building on the accurate asset reporting that is externally audited each year by Queensland Audit Office (QAO). The PMO was established to enhance governance, accountability and deliverability over operational and capital projects.

1.2.5 Key Finance Policies

Council has a suite of financial policies that it reviews on an annual basis.

Investment Policy

- Council is looking to get higher returns on its investments whilst protecting the capital value.
- Council will do this by moving to a more active investment strategy when funds permit and continues to monitor the community's cash on a daily basis to realise the highest possible rate of return.

Debt Policy

- Whilst cash balances remain well in excess of the minimum target for cash capacity (of at least 3 months), Council will use existing surplus funds and only borrow when necessary for intergenerational capital projects.
- Council is making annual debt repayments so as to settle existing loans one year ahead of schedule. Council will continue to seek opportunities to use any surplus funds available to reduce the liabilities on the community's balance sheet.
- Council will only borrow for works that fall into at least one of the following categories:
    - risk management
    - asset management
    - intergenerational projects.

Revenue Policy

- Council will be guided by the following principles when levying rates and setting other fees and charges:
    - accountability
    - transparency
    - representation
    - sustainable financial management
    - fairness
    - differentiation of categories
    - special needs and user pays
    - social conscience.

Procurement Policy

- Council is committed to achieving value for money when procuring.
- Council also outlines four other sound contracting principles including open and effective competition, ethical behaviour and fair dealing and environmental protection.
- As part of the Redlands community, Council has also adopted a principle of the development of competitive local businesses and industry.

Asset and Services Management Policy

- The Executive Leadership Team works with officers to ensure the Asset and Service Management Plan (ASMP) outputs align to inputs of the annual budget development process.
- Each ASMP is linked to and supports other corporate planning and reporting processes.
- Council's ten year capital program is compiled to respond to the ASMPs.

Capital Works Prioritisation Policy

- Council's capital works prioritisation policy ensures the community's existing infrastructure will be maintained and further supports the objectives of the Asset and Services Management Policy.
- Capital expenditure will be prioritised into renewal programs before asset upgrades or the creation of new assets.
- Council continues to monitor the asset sustainability ratio and focuses on renewal capital works to move this long-term measure upwards to the target zone.

Constrained Cash Reserves Policy

- Council has collected rates, utilities and other revenue streams over the years and has ring-fenced the monies for particular purposes. Council plans to utilise the reserves before increasing debt on the community's balance sheet and has also committed to conducting an annual review of the constrained reserves to ensure the purpose of each reserve is still current and in the interest of the community.

- Council's reserves are cash backed and form a subset of cash balances.

Application of Dividends and Tax Equivalent Payment Policy

- Council receives dividends and tax equivalent payments from its commercial business activities (namely Redland Water and RedWaste).
- Council will look to receive returns from its wholly owned subsidiary Redland Investment Corporation (RIC).
- All financial returns to Council will be applied to the provision of community benefit.

2. Parameters and Measures

2.1 Parameters

Council has a range of parameters grouped into the following categories:

- growth increases (%)
- price increases (%)
- efficiency targets (%)
- additional amendments ($ and %)
- water business pricing model outputs.

The parameters are the main drivers in the model although of note, the capital expenditure for each year and associated funding is pulled from the ten year capital program. The tables below outline the parameters for each of the ten years that the Long-Term Financial Forecast covers.

Growth Increases %	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
General Rates Charges	2.29	1.33	1.33	1.33	1.33	1.28	1.28	1.28	1.28	1.28
Waste Utility Charges	1.05	1.33	1.33	1.33	1.33	1.28	1.28	1.28	1.28	1.28
General Fees & Charges	1.05	1.33	1.33	1.33	1.33	1.28	1.28	1.28	1.28	1.28
Employee Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Operating Costs	1.05	1.33	1.33	1.33	1.33	1.28	1.28	1.28	1.28	1.28

Price Increases %	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Underlying CPI	1.57	2.25	2.25	2.50	2.50	2.50	2.75	2.75	2.75	2.75
RCC Blended CPI	2.73	3.00	3.00	3.06	3.06	3.12	3.12	3.12	3.12	3.12
Employee Costs (EBA)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
General Rates	2.73	5.00	3.00	3.06	3.06	3.12	3.12	3.12	3.12	3.12
General Fees & Charges	4.55	5.00	5.00	5.06	5.06	5.12	5.12	5.12	5.12	5.12
Interest Rates	2.50	2.80	3.10	3.70	3.70	3.70	3.40	3.40	3.10	3.10
Operating grants and subsidies	2.25	2.25	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75

Efficiency Targets %	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Employees	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational Goods & Services	1.0	5.5	3.5	2.0	0.0	0.0	0.0	0.0	0.0	0.0

Additional Amendments	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Anticipated efficiency savings		2,000								
Remove non recurrent revenue in base year ($000s)		4,709	4,853	5,002	5,168	5,338	5,526	5,721	5,923	6,132
Add non recurrent 10 year operating revenue ($000s)		1,136	1,136	1,136						
Remove non-recurrent operating expenditure from base year ($000s)		10,930	11,322	11,728	12,156	12,596	13,060	13,542	14,041	14,559
Add non-recurrent 10 year operating expenditure ($000s)		3,055	3,692	4,632	2,928	2,315	2,388	2,167	6,364	2,309

Water Business $000s	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Water Access Revenue	18,296	18,488	18,681	18,877	19,067	19,258	19,451	19,646	19,843	19,982
Water Consumption Revenue	40,317	43,235	46,211	47,642	49,101	50,608	52,166	53,778	55,443	56,995
Wastewater Revenue	41,770	42,208	42,651	43,098	43,530	43,967	44,408	44,853	45,302	45,620
Employee Costs	8,200	8,499	8,809	9,136	9,470	9,822	10,186	10,564	10,956	11,329
Operational Goods & Services	51,081	54,792	58,588	60,755	62,972	65,279	67,669	70,145	72,710	75,142

2.2 Financial Sustainability Targets

Council continues to measure against more ratios than the legislative requirement to demonstrate its ongoing commitment to financial sustainability. Council has seven long standing performance measures and they are outlined in the table below. The targets and target ranges are set by Council and are reviewed annually to remain realistic but also ‘stretch’ in nature. Council also chooses to set targets for, measure and report against the interest coverage ratio as this was previously labeled as a measure of sustainability by the Department and provides the community with an understanding of the relationship between interest expense and interest revenue.

Each ratio is defined in the glossary and Council reports on its performance against both the target and the anticipated performance in the revised budget on a monthly basis.

Financial Stability Ratios	Target
Level of Dependence on General Rate Revenue (%)	Target less than 37.5%
Ability to Pay Our Bills - Current Ratio	Target between 1.1 and 4.1
Ability to Repay Our Debt - Debt Servicing Ratio (%)	Target less than or equal to 10%
Cash Balance $M	Target greater than or equal to $50M*
Cash Balances - Cash Capacity in Months	Target at least 3 months*
Longer Term Financial Stability - Debt to Asset Ratio (%)	Target less than or equal to 10%
Operating Performance (%)	Target greater than or equal to 15%*
Interest Coverage Ratio (%)	Target less than 5%*

*During the annual review of this Strategy, Council revised targets on four Financial Stability Ratios to reflect the changes in its operations. Council continues to be committed in setting stretch and relevant financial targets.

In addition to the ratios above, the *Local Government Regulation 2012* requires councils to measure and report against:

- asset sustainability ratio
- net financial liabilities
- operating surplus ratio.

Targets for these ratios are set by the Department of Infrastructure, Local Government and Planning and all are deemed to be long-term target ranges.

The ratios are defined in the glossary and Council reports on its performance against both the target and the anticipated performance in the revised budget on a monthly basis.

Measures of Sustainability	Target
Asset Sustainability Ratio (%)	Target greater than 90% (on average over the long-term)
Net Financial Liabilities (%)	Target less than 60% (on average over the long-term)
Operating Surplus Ratio (%)	Target between 0% and 10% (on average over the long-term)

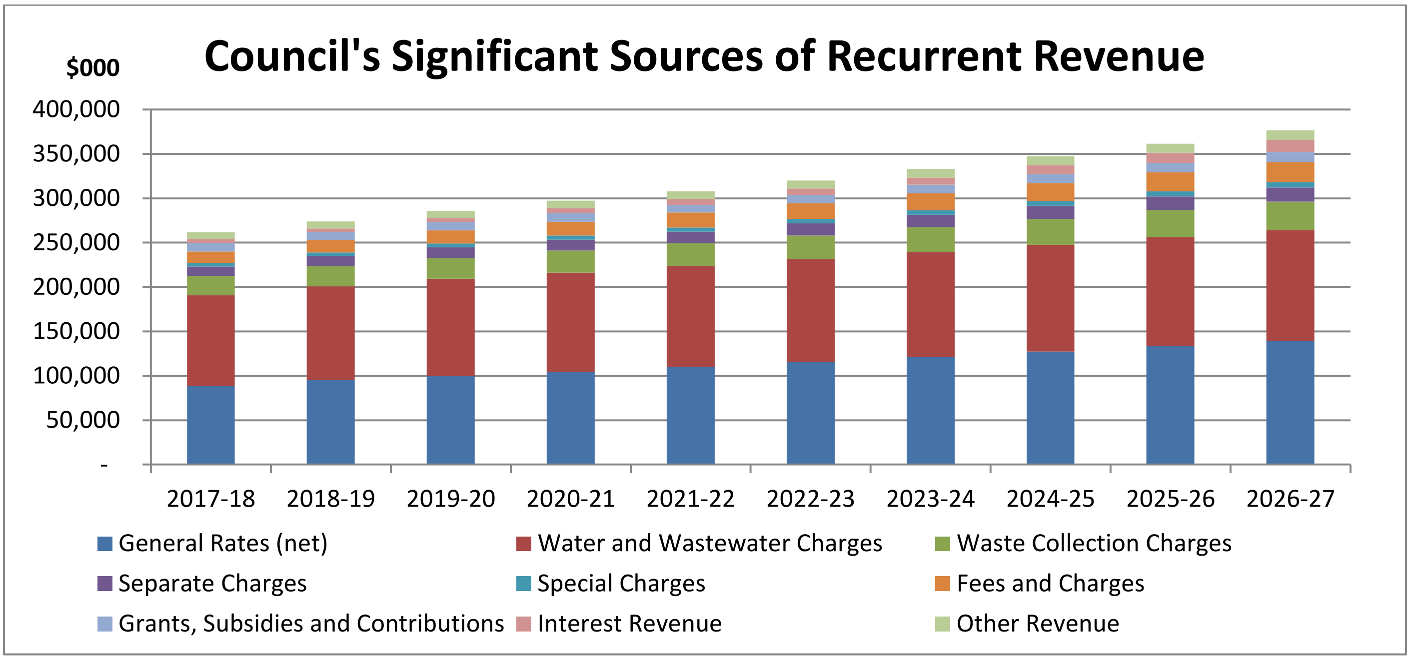
3. Revenue Management

3.1 Background

Council's significant sources of recurrent revenue include:

- General Rates
- Water and Wastewater Charges (water access, water consumption and sewerage charges)
- Waste Collection Charges
- Environment, Landfill Remediation and Redland City SES Administration Separate Charges
- Canal and Lake Special Charges
- Fees and Charges
- Federal and State Grants, Subsidies and Contributions
- Interest on Investments
- Other Revenue (including sales of service and goods).

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



Of note, the increases in water revenues are largely driven by the increase in costs associated with the purchase of bulk water from the State Government.

In relation to the LTFF, the following operational revenue streams continue to be classified as those which will require close management attention in order to support the achievement of the financial sustainability targets:

- General Rates - risk that future increase in general rate may be less than RCC Blended CPI – Council is looking to diversify its revenue streams and ensure commercial opportunities forecast returns that support balanced or surplus budgets without excessive rate increases
- Federal and State grants and subsidies – whilst the previous indexation freeze on the Financial Assistance Grant (FAG) has been lifted for 2017-18 future government decisions around FAG levels remain a risk.

Council will continue to price its separate and special charges through comprehensive financial modelling that takes into consideration the associated costs, appropriate indices and the desired program of delivery. With respect to water, wastewater and waste collection modelling and pricing, please refer to the chapter on commercial opportunities. All other operational revenue streams are predicted to increase in line with adopted key assumptions and parameters as outlined above.

Council's significant capital funding streams include:

- Infrastructure Charges
- Federal and State Capital Grants and Subsidies
- Borrowings
- General Revenue.

In relation to the LTFF, the following capital funding streams will require continued management attention in order to support the achievement of the financial sustainability targets:

- Federal and State Grants and Subsidies – due to the potential for redirection of these funds
- Infrastructure Charges – due to the seasonality of development and difficulty in estimating charge. Council has established an Infrastructure Charges Team to address this risk
- Borrowings – to ensure affordability of borrowings to fund capital expenditure that is aligned to the Debt Policy.

3.2 Revenue Policy Statements

3.2.1 Revenue Policy Statement

The generation of an appropriate level of revenue to support the delivery of the corporate planning goals is an essential element of the Strategy. With respect to operational revenue streams, each year during the annual budget development process Council works towards a 'balanced budget' where total recurrent revenues meet or slightly exceed total recurrent expenses. Whilst this is a desirable position, in years of high volumes of intergenerational works or initial investment, Council will not pass through the total costs to the community, but will forecast an operating deficit. Throughout the financial year Council will then work tirelessly to improve on the adopted position to move back towards a balanced budget or operating surplus (projects completed ahead of schedule and budget, savings made through better procurement and contracting, efficiencies through better work practices).

Council will be guided by the following principles:

- **Accountability** — Council will be accountable to the providers of funds to ensure those funds are applied efficiently and effectively to satisfy the objective for which the funds were raised.
- **Transparency** — Council will be transparent in its revenue raising activities and will endeavour to use systems and practices able to be understood by the community.
- **Representation** — Council will act in the interests of the whole community in making decisions about rates and charges.
- **Sustainable financial management** — Council will ensure it manages revenue diligently and that the application of funds is founded on sustainable strategic objectives that result in timely and optimal investment in identified priorities.
- **Fairness** — while the rating legislation requires Council to use property valuations as the basis for raising rate revenue, Council will monitor the impact of valuation changes and moderate increases where possible.
- **Differentiation of categories** — Council will apply different rates to various categories of property that will reflect the particular circumstances of the categories and Council's policy objectives related to those categories.
- **Special needs and user pays** — Council will draw from various revenue sources to fund special needs including (but not necessarily limited to):
  - separate rates or charges for whole of community programs
  - special rates or charges for recovery of costs from beneficiaries
  - utility charges for specific services based generally on usage
  - statutory fees and charges in accordance with legislation, regulation or local laws

- commercial fees and charges where users can clearly be identified
- where practicable recovering credit card fees through a surcharge on credit card transactions.

- **Social conscience** — Council will apply a range of concessions (e.g. for pensioners and institutions) and will accommodate special circumstances where hardship can be demonstrated.

3.2.2 Investment Policy Statement

Council's investment policy objective is to maximise earnings from authorised financial investments of surplus funds after assessing and minimising all associated risks in accordance with this strategy. Council's current philosophy is to guarantee the capital value of investments.

In accordance with Council's Investment Policy, Council has committed to the following:

- investing only in investments as authorised under current legislation
- investing only with approved institutions
- investing to facilitate diversification and minimise portfolio risk
- investing to protect the capital value of investments (balancing risk with return opportunities)
- investing to facilitate working capital requirements
- reporting on the performance of its investments on a monthly basis as part of the monthly financial reports to Council
- conducting an annual review of all investments and associated returns as part of the annual review of this strategy
- ensuring no more than 30% of Council's investments are held with one financial institution, or one fund manager for investments outside of the Queensland Treasury Corporation (QTC) or the Queensland Investment Corporation (QIC) cash funds or Bond Mutual Funds.

3.3 Revenue Assumptions in the Long-Term Financial Forecast

With respect to revenue sources, the LTFF contains the following assumptions:

- increasing general rates in line with RCC Blended CPI or ABS CPI (Brisbane capital city) where possible and with the exception of 2018-19
- maintaining the retail and distribution component of water and wastewater charges at current levels in recognition of Council's previous water pricing path which was designed to smooth prices resulting from planned major increases in the State Bulk Water Charge
- where possible and appropriate setting fees and charges such as waste collection on a full cost recovery basis with an appropriate level of return to Council in accordance with the current *Local Government Act 2009* and *Local Government Regulation 2012* requirements
- setting other fees and charges increases in line with the projected RCC Blended CPI increases
- seeking to maximise revenue from external grants and subsidies where possible
- seeking to increase the level of commercial returns and broaden commercial opportunities where practical adopting the QGSO (mid series) growth forecast from 2018-19 for the remaining life of the strategy.

3.4 Key Risks, Issues and Mitigation Strategies

3.4.1 Revenue and Pricing Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Council diversifies its revenue streams to reduce the dependence on general rates	Possible	Medium	**Medium**

Investment income increases beyond forecast due to higher cash balances and rate increases	Likely	Low	**Medium**
Council receives additional funding from State and Federal Governments as a result of recruiting a dedicated resource	Likely	Low	**Medium**
Council's Activity Based Costing project will provide more granularity for cost recovery fees	Likely	Low	**Medium**
To support economic development and business growth through master planning of key precincts; incentives/stimulus packages; trade and investment attraction; and development and implementation of action plans for key industry sectors identified in the Redland City Economic Development Framework 2014-2041.	Likely	Low	**Medium**
The city will see increased growth in commercial properties to provide more rates, utilities and fees revenue from these property types	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Potential financial impact of further water reform will have on Council	Possible	Major	**High**
Potential reduction in service delivery due to insufficient funding from external parties	Almost Certain	Medium	**High**
Fees and Charges take up is reduced under 'user pays' pricing model	Almost Certain	Medium	**High**
Future and historic infrastructure charges do not fully meet LGIP requirements	Possible	Major	**High**
Water usage patterns have an adverse impact on revenues beyond current forecasts	Possible	Medium	**Medium**
Ageing population increases burden on pensioner remissions	Likely	Low	**Medium**
General rate increases continue to increase on par with ABS or RCC Blended CPI	Likely	Low	**Medium**
Predicted population growth does not materialise	Rare	Low	**Low**

Risks are events or situations 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 or explore the opportunities, the following projects and actions progress across Council:

- continue to enhance monthly cash management forecasting using the corporate Finance System in order to increases returns on investments when interests rates are low; signal issues (if applicable) relating to cash-flow and continue to reduce borrowings
- consider moving towards rolling forecasts to improve future estimates and increase the frequency of reviewing indices, parameters and assumptions
- continues to review the existing Service Level Agreements (SLAs) and Activity Based Costing (ABC) methodologies to ensure:
  - full cost recovery is reflected in pricing for Council's commercialised business units; and
  - appropriate pricing for Council's cost-recovery based and commercial fees and charges
- further develop Council's grants management process – continue strong relationships with state and federal stakeholders to explore opportunities in sourcing available monies and support to business areas to ensure external funding sources are considered every time to reduce the burden on the current and future ratepayers
- investigate and measure the potential impacts further water reform and state bulk water pricing may have on Council's financial performance
- continue to consider other commercial opportunities in addition to Council's wholly owned subsidiary Redland Investment Corporation that may reduce Council's reliance on income streams from water and wastewater.

3.4.2 Investment Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Opportunities around strategic investments - see commercial opportunities chapter	Possible	Severe	**Extreme**
Interest revenues continue to exceed interest expenses due to high cash balances and debt reduction	Almost Certain	Medium	**High**
Appropriately term-diversified investment portfolio results in additional revenue	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Constrained cash reserve balances exceed cash balances at the end of a financial year	Possible	Low	**Medium**
Interest rates significantly below benchmark resulting in lower returns	Unlikely	Low	**Low**
Council's net debt position deteriorates as cash balances reduce quicker than debt balances	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 or explore the opportunities, the following projects and actions progress across Council:

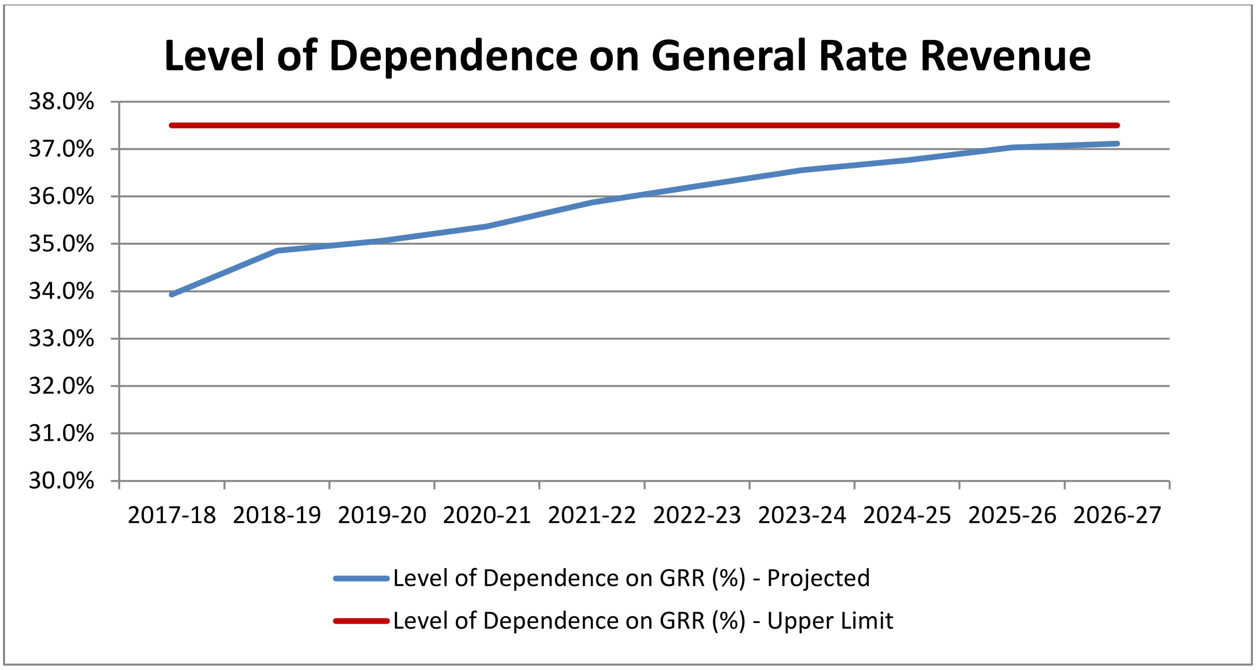
- continued review of investment returns and consideration of options in times of low interest rates – Council's returns on investments consistently exceed the Bloomberg AusBond Bank Bill index (BAUBIL) industry benchmark

- regular reviews of constrained cash reserves balances and recommendations to Council to utilise constrained funds or extinguish the reserves as appropriate
- continued support organisation-wide to review funds held in trust (off balance sheet), managing accordingly (refund where applicable or transfer to Council assets if appropriate and in accordance with legislative requirements).

3.5 Key Performance Information

The following graph shows how the indicator performs over the life of the Strategy compared to the adopted target. As indicated by the ten year financial forecast statements and outputs, it is forecast that we will be under the target for the level of dependence on general rate revenue under the current assumptions.

This ratio provides Council and the community with a signal to whether diversification of the revenue streams is required.



4. Assets Management

4.1 Background

Council holds a range of assets including cash and cash equivalents, accounts receivable, investments property, investments in other entities, work in progress and property, plant and equipment.

Council is responsible for provision of a diverse range of services to meet community needs and expectations. A significant number of these services are provided through infrastructure and other non-current assets (referred to as property, plant and equipment). Council owns, manages, maintains and creates assets that are valued in the order of $2.5 billion.

In continuing to provide these asset-based services, Council continues to overcome the following challenges:

- decreasing availability and increased competition for funds
- population growth pressures and changing demographics directly influencing the quantity and type of assets (and services) required
- the continuous requirement to renew the infrastructure in place that helps to deliver services
- escalation in the quantity and complexity of related reporting demanded by business regulators, statutory bodies and other levels of government.

In relation to the Long Term-Financial Forecast, the following asset and services management issues have been identified as ones which will require continued management attention in order to support the achievement of the financial sustainability targets:

- capital expenditure will be prioritised towards asset renewals before asset upgrades or the creation of new assets
- performance of Asset Sustainability Ratio – due to not meeting the Department's target for the life of the Strategy. Council remains committed to funding all asset renewal requirements and moving this long term measure upwards towards the target zone. Council is moving towards including additional indicators to provide a more balanced view of the asset management financial position
- asset Category Definitions and granularity of reporting – to ensure that accurate expenditure is identified for renewal capital projects
- condition of Asset Base – strengthen understanding of remaining useful lives to ensure a true prediction of assets life cycle
- valuation and Depreciation Methodologies – to ensure the optimisation of depreciation cost allocation.

4.2 Asset and Services Management Policy Statement

Council's policy objective or goal is to meet a required level of service in a way that is financially sustainable through the

- creation
- acquisition
- operation
- maintenance
- renewal; and
- disposal

of assets to provide for present and future customers and communities.

4.3 Asset and Services Management Guidelines

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

- Asset and Services Management Plans will drive borrowing decisions
- identification, scoping and completion of renewal projects in the ten year capital program will continue to be prioritised (formalised policy since 2014)
- 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.

Council's policy 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 implementation of an overarching asset management philosophy
- establish and communicate corporate responsibilities for the ownership, control, accountability and reporting of assets
- reinforce that assets should only be created, maintained, renewed or replaced in accordance with Asset and Service Management Plans
- 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 activities 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
- support ongoing improvements to existing Asset and Services Management Planning and corresponding financial forecasting, planning and reporting.

4.4 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Review of depreciation methodology to ensure current approaches are still reflective of the pattern of consumption	Almost Certain	Medium	**High**
Review of Portfolio Management Office continues to improve the governance around operational and capital projects	Almost Certain	Medium	**High**
Further work undertaken with respect to minimising whole of life costing - support to asset managers with long-term projections	Likely	Medium	**High**
Outputs from the ASMPs drive the ten year capital program and annual budget	Almost Certain	Medium	**High**
Asset management system developments generate improved information for recording, reporting, long-term financial forecasting and better asset management practices	Likely	Medium	**High**
Council's infrastructure planning and charging team improves the correlation between trunk infrastructure and financial strategy outcomes	Almost Certain	Medium	**High**
Council's Capital Works Prioritisation Policy improves performance in asset KPIs	Possible	Medium	Medium

Risk	Likelihood	Consequence	Rating
Significant failure of critical infrastructure leads to financial stress	Possible	Major	**High**
Service level of assets are not at the level required	Almost Certain	Medium	**High**
Insufficient strategic planning for renewals and maintenance may lead to an infrastructure backlog and large scale unplanned capital renewals	Likely	Medium	**High**
Material misstatement of financial statements due to non-capitalisation of assets	Rare	Major	**Medium**
Increasing public liability claims for injuries in public places and council owned or controlled facilities	Rare	Medium	**Low**
Increasing legal action for discrimination arising from inability to access council facilities and non-compliance of the Disability Discrimination Act	Rare	Medium	**Low**

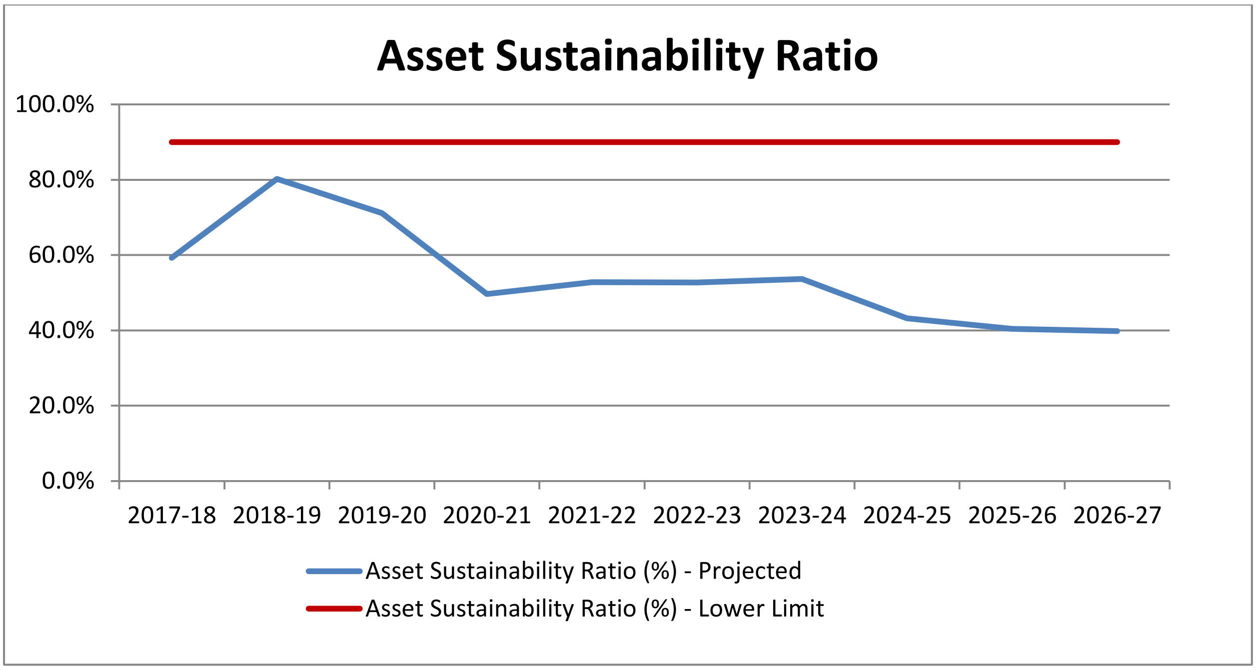
Risks are events or situations that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks or explore the opportunities, the following projects and actions progress across Council:

- Asset Management – to establish an Council-wide response to asset management driven by the Executive Leadership Team (ELT)
- ongoing additional development of asset and service management plans in accordance with statutory requirements, business needs and agreed service levels
- further development on a condition based depreciation methodology if appropriate
- continuation of an Infrastructure Charges Team to ensure Council is maximising opportunities for recovery of appropriate costs with respect to trunk infrastructure
- implementation of the Portfolio Management Office (following a comprehensive review and restructure) and associated processes – maintaining governance, accountability and deliverability over operational and capital projects
- improved financial asset management and integration of asset planning with budgeting and forecasting – supported with improvements in the asset management system
- developing a complete understanding of the remaining useful lives of our asset base.

4.5 Key Performance Information

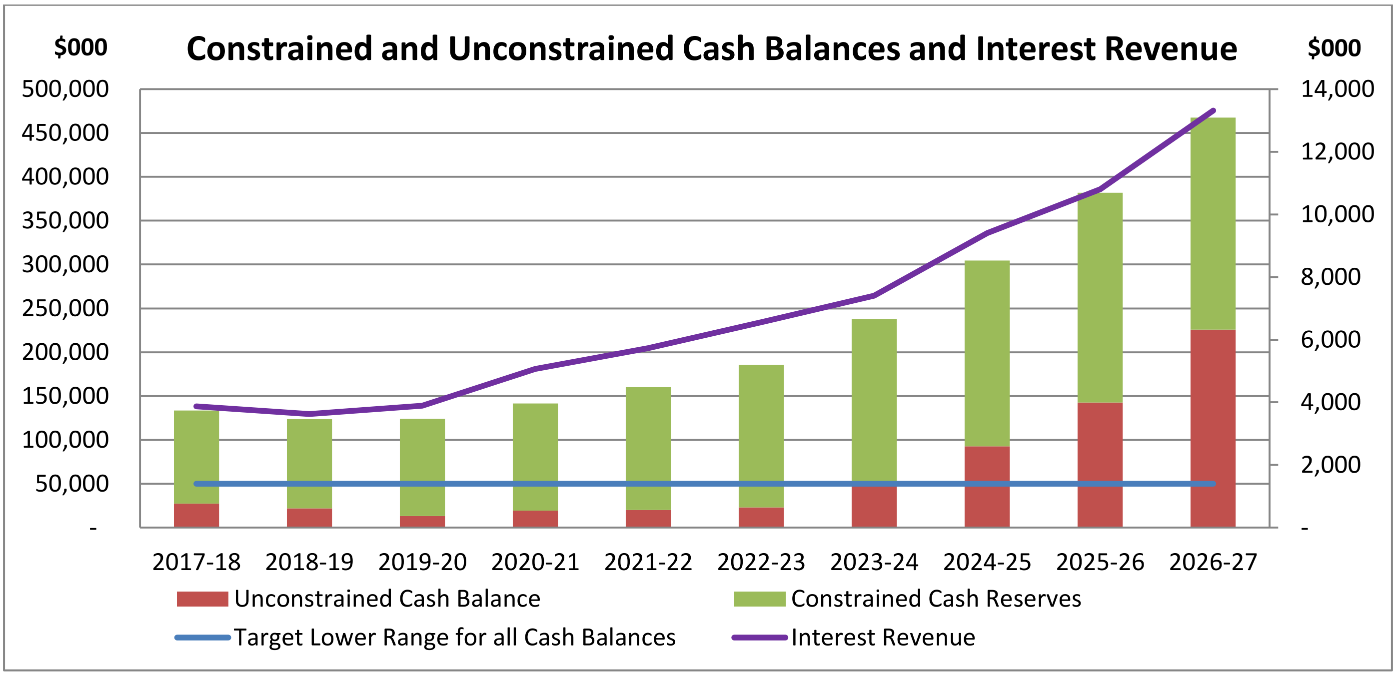
The asset sustainability ratio target is 'an average over the long-term'. Council has adopted a Capital Works Prioritisation Policy that requires expenditure on renewals before new asset creation– this should improve Council's performance against the ratio. The current ten year capital program and depreciation forecasts result in the following graph:



Council holds considerable cash balances and during the term of this strategy, Council considers its risk appetite and policy position with respect to investment of surplus funds. To maximise returns on investments, officers invest or withdraw funds on a daily basis to keep minimal balances in the transaction account. The performance of Council's investment account is reported to the community on a monthly basis and is regularly reviewed to ensure opportunities are maximised and risks are minimised.

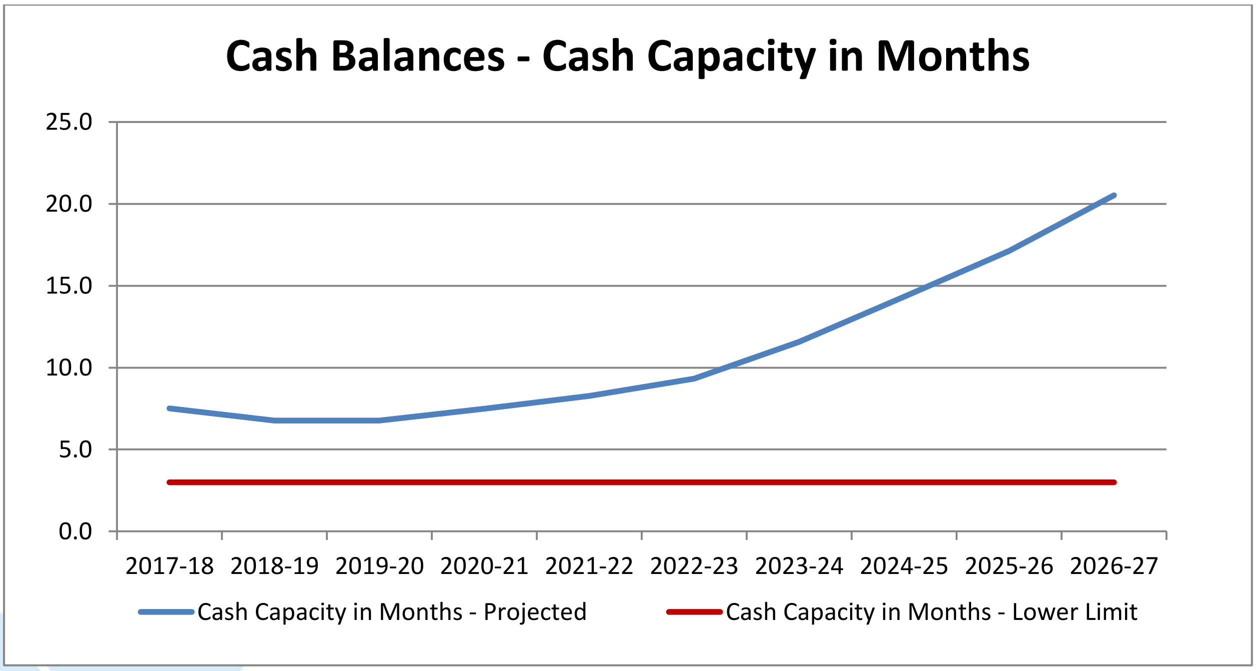
In recent financial years, emphasis has been placed on local governments to ensure constrained cash reserves are fully cash-backed. Reserves are a subset of community equity and sit alongside retained earnings. Whilst retained earnings can be utilised for general expenditure, reserves are ring-fenced for particular purposes. The requirement to ensure all reserve monies are fully cash-backed has also created an opportunity for Council to annually review its reserves to ensure the constraining of cash is still in the community's best interests.

Traditionally, the main source of interest revenue resulting from the investment of cash balances has been through the Queensland Treasury Corporation (QTC). 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. The total cash balance is broken down into constrained (reserves) amounts with the balance being unconstrained.



In relation to the ten year financial model the following investment income and expenditures continue to be monitored:

- Cash flow forecasting – improvements in the budgeting, forecasting and particularly phasing performance of managers will be a key requirement in the coming financial years and may be enhanced with the introduction of rolling forecasts
- Cash management – regular reviews of debtors, creditors and payroll processes to ensure the community's cash is being utilised in the most efficient manner
- Institutional investment – due to the likelihood of increased returns by diversifying the institutions that are invested in and the terms of those investments where possible.



Council continues to prioritise the use of existing cash balances and reserves in favour of new borrowings. In accordance with Council's debt policy new borrowings are only considered where they address intergenerational equity and asset or risk management issues. Council levies rates on a quarterly basis and this underpins the target of holding at least three months of cash payments to suppliers and employees (including interest expense).

Significant increases in cash balances projected in the latter years of this strategy are largely the result of unspent capital funding as a result of:

- asset renewals expenditure that is well below accounting depreciation charges
- capital revenues including infrastructure charges and capital grants and subsidies which currently exceed non-renewal capital expenditure projections.

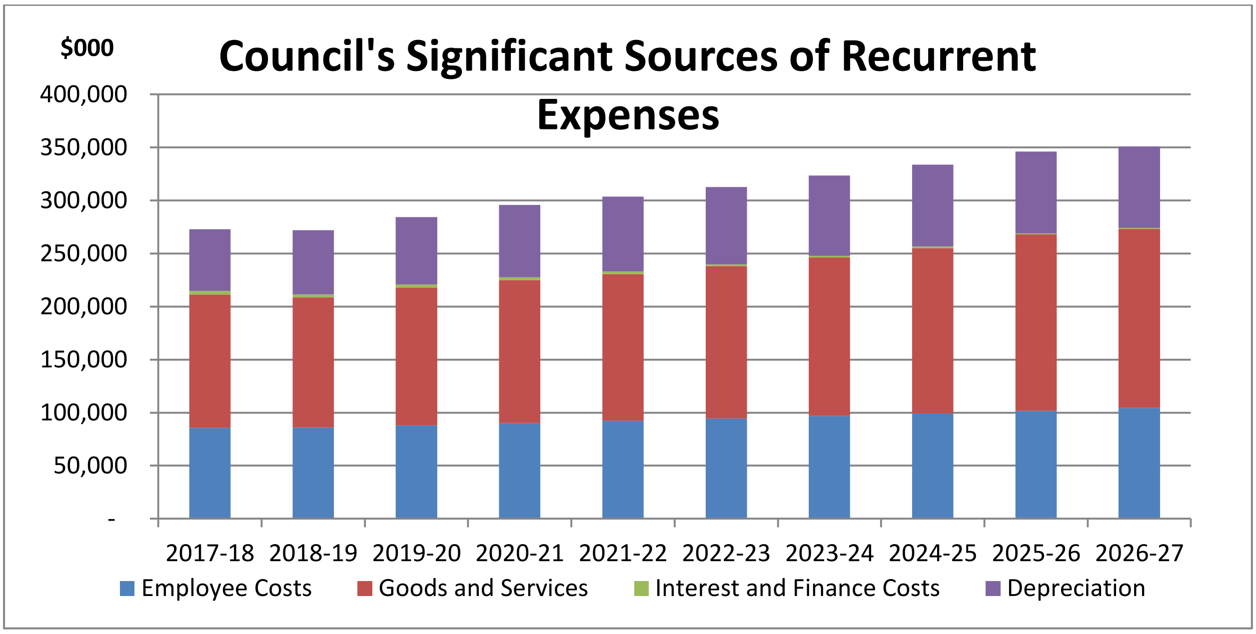
Asset accounting and asset management planning processes are currently under review as part of Council's Asset Management Project. Furthermore Council's recently adopted Local Government Infrastructure Plan (LGIP), which identifies significant infrastructure requirements, will be fully incorporated in future Asset Service Management Plans. Ultimately the cash balances in later years will be reduced through identification of future necessary infrastructure and capital works.

5. Expenditure Management
5.1 Background

Council's significant sources of operational expenses include

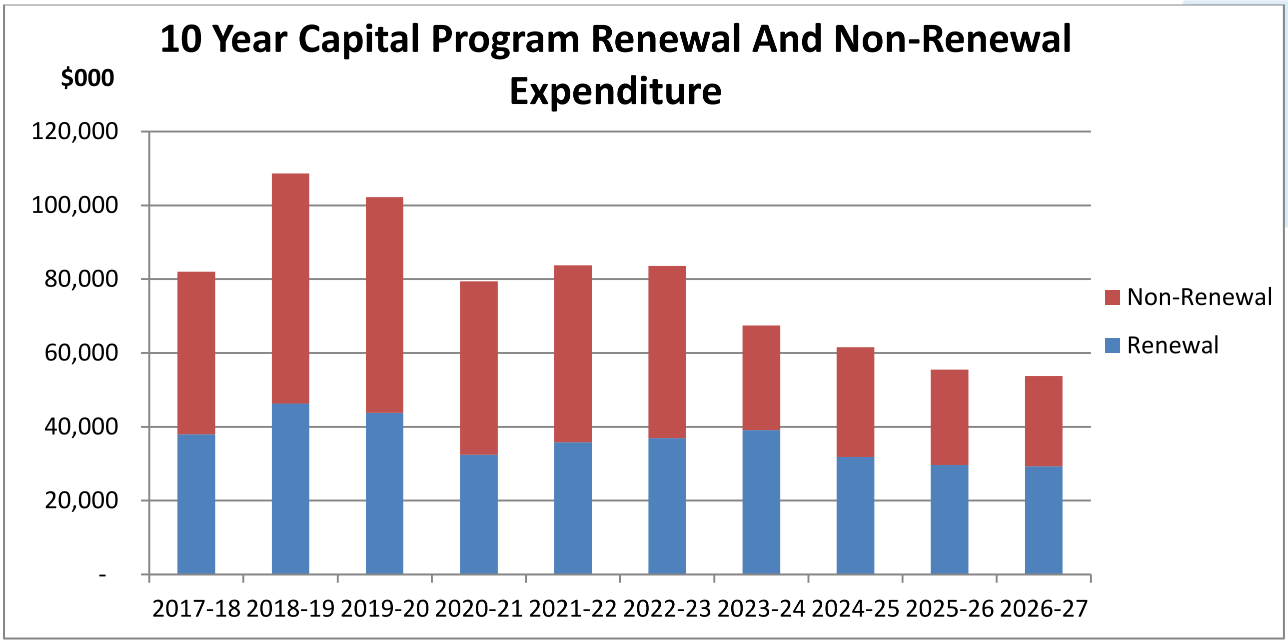
- employee costs
- goods and services
- interest and finance costs
- depreciation
- other expenses (including community service obligations and subsidies).

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



Of note, the above increase in the projection of goods and services is significantly influenced by the increase and pass through costs associated with the purchase of bulk water from the State Government.

In addition to the previous graph, capital expenditure on planned renewal and non-renewal projects are undertaken over the life of the Strategy. The following chart provides a break up of this spending type in the projected ten year capital program and the expenditure split is underpinned by Council's Capital Works Prioritisation Policy - 'maintain existing infrastructure – 'renewal' before 'upgrade' or 'new' work. Council's comprehensive asset project will also ensure ASMPs continue to determine expenditure on assets and renewal works are only undertaken when assets require renewing and not to improve performance against a financial ratio. The project will also consider the merits of condition based depreciation which may further support the forecasting of renewal spend, in place of the current straight line depreciation approach adopted by Council.



Due to the risks and assumptions in operational revenues mentioned in the previous chapter, the following expenditure streams have been identified as ones which will require continued management attention in order to support the achievement of reaching an operating surplus:

- employees – to continue to critically review the cost of management and staff, including temporary staff and agency colleagues to ensure activities are resourced in the most efficient and effective manner
- goods and services – to critically review the timing and cost of discretionary operational projects
- goods and services – to lower and continue to review operational activity expenditure, building on proven industry best practice in addition to implementing efficiencies where practicable (Lean Thinking Methodologies and reduction of Fringe Benefits Tax for example)
- interest expense and finance costs – Council continues to make annual debt repayments to reduce interest expense and works with treasury service providers to control finance costs
- depreciation – due to the requirement to optimise depreciation charges based on condition assessment rather than straight line methodology.

The following capital expenditure items will require ongoing management attention in order to support the achievement of the financial sustainability targets:

- programing an optimal, affordable and deliverable capital spend over the LTFF, in particular in years 1 to 5
- ensuring the correct level of renewal capital expenditure is programed in alignment to Asset and Service Management Plans and underpinned by the principles of the Capital Works Prioritisation Policy
- Federal and State Grants and Subsidies – due to the potential for redirection of these funds
- infrastructure charges – due to the seasonality of development and difficulty in estimating charge. Council has established an Infrastructure Charges Team to address this risk
- borrowings – to ensure affordability of borrowings to fund capital expenditure that is aligned to the Debt Policy.

5.2 Expenditure Management Policy Statement

Operational and capital expenditure management to support the delivery of corporate goals will be an essential element of the Strategy.

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 Assumptions in the Long-Term Financial Forecast

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

- efficiency targets are built into the operational goods and services line item although these efficiencies could be sourced from reducing operational expenditure or conversely increasing operational revenues
- the employee base is not forecast to grow over the life of the model. The Enterprise Bargaining Agreement (EBA) has been used for price increases associated with all employee costs
- continually improve services with an emphasis on efficiency and cost recovery – Council is constantly looking to reduce costs by delivering services 'faster, better and cheaper'
- applying more rigorous purchasing controls to minimise goods and services costs over time, through the future adoption of a suitable procurement model, plans and initiatives for improved procurement efficiencies
- over time providing a more strategic approach to contracts, requiring a rigorous and transparent suitability assessment against the quadruple bottom line, emphasising waste elimination, efficiency and continuous improvement
- restricting the total size of its capital program based on priority needs relating to renewal works, affordability and deliverability
- identifying, scoping and prioritising upgrade and expansion projects in the ten year capital program in accordance with Council's Capital Works Prioritisation Policy.

5.4 Key Risks, Issues and Mitigation Strategies

The Strategy has identified the following opportunities and risks in relation to expenditure which have been assessed in accordance with Council's adopted Enterprise Risk Management framework

Opportunity	Likelihood	Consequence	Rating
Improving project management processes results in reduced costs and risks, enhanced processes, better prioritisation and benefits realisation management	Likely	Medium	**High**
Improved procurement practices in line with relevant legislation	Almost Certain	Medium	**High**
Continued review of activity based costing methodologies to drive efficiencies in processes	Almost Certain	Medium	**High**
Continued improvements in the asset accounting space to ensure assets are recorded and depreciated accurately	Almost Certain	Medium	**High**
Full rollout of lean methodology to provide services faster, better, cheaper	Likely	Medium	**High**
Improved control of consultants and temporary staff to manage increasing costs	Likely	Low	**Medium**

Improved leave management resulting in reduced costs	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Failure to reflect whole of life costs of services in forecasting	Likely	Medium	**High**
Reduction in service delivery due to cost shifting from other tiers of governments	Likely	Medium	**High**
Ineffective planning of increases to service levels leads to increased costs	Likely	Medium	**High**
Staff turnover and keeping skill levels up to the market expectations with required levels of training	Possible	Medium	**Medium**
Future financial sustainability is impacted by failure to achieve operational ratios	Possible	Medium	**Medium**
Legislation requires local governments to report more and audit scopes are increased	Possible	Low	**Medium**
Society becomes more litigious and legal expenses will increase	Possible	Low	**Medium**

Risks are events or situations 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 or explore the opportunities, the following projects and actions progress across Council:

- continued business process reviews and service level review projects – to undertake robust reviews of our services to determine the optimum level of efficiency and effectiveness
- further development of a Lean Thinking Methodology and process
- Council-wide response to asset management driven by the Executive Leadership Team (ELT) via the Asset Management Project
- implementation, following the finalisation of the comprehensive review of the Portfolio Management Office and associated processes – maintaining governance, accountability and deliverability over operational and capital projects.

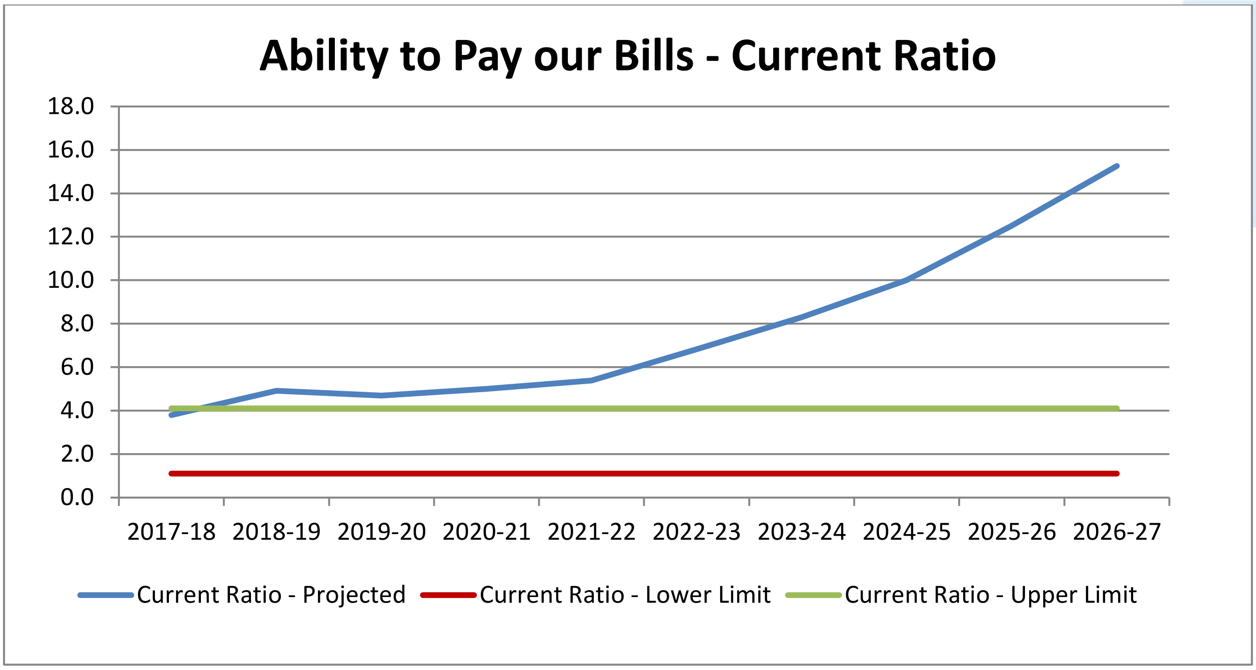
The following risks continue to be 'watched' before mitigation projects are initiated:

- potential for government cost shifting
- increased burden on expenditure from Canal estates
- striking a balance between intergenerational projects (with initial upfront investments) and returning operating surpluses in consecutive years.

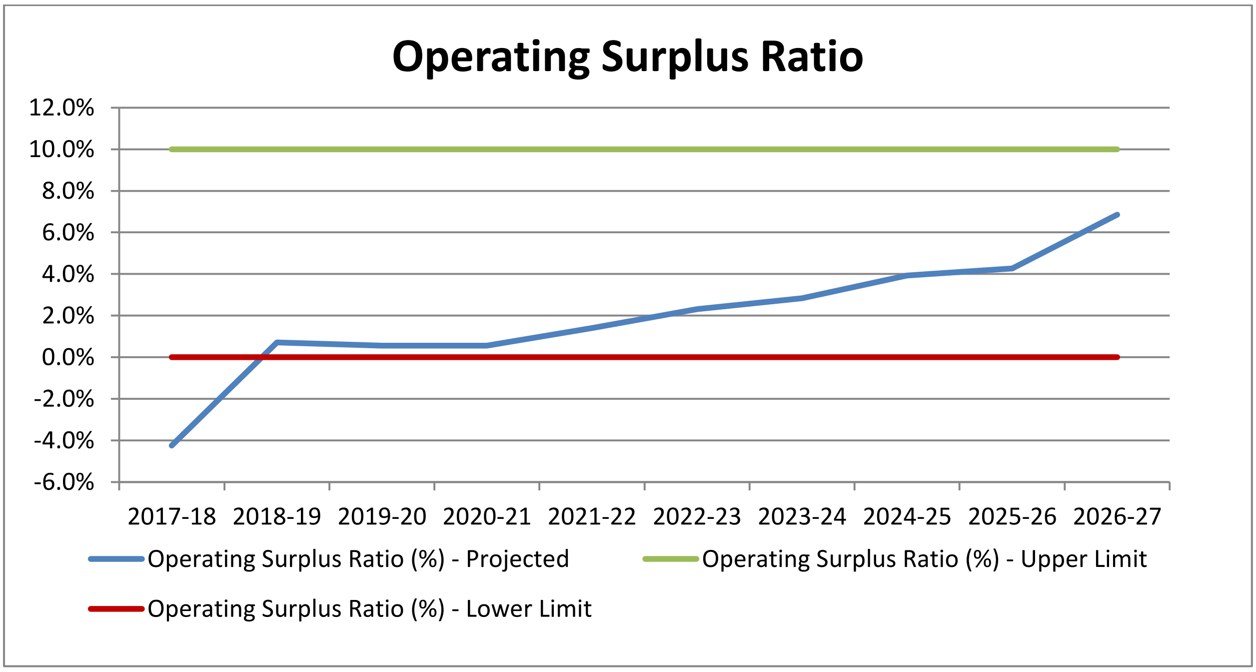
5.5 Key Performance Information

The current ratio is a good indicator of Council's liquidity and ability to meet short term obligations.

If the current ratio is too high over a sustained period, this may indicate the Council may not be efficiently using its current assets or its short-term financing facilities and may also indicate problems in working capital management. However, it should be noted that cash balances used in this ratio include significant constrained cash balances, from infrastructure charges, which are held in reserve.



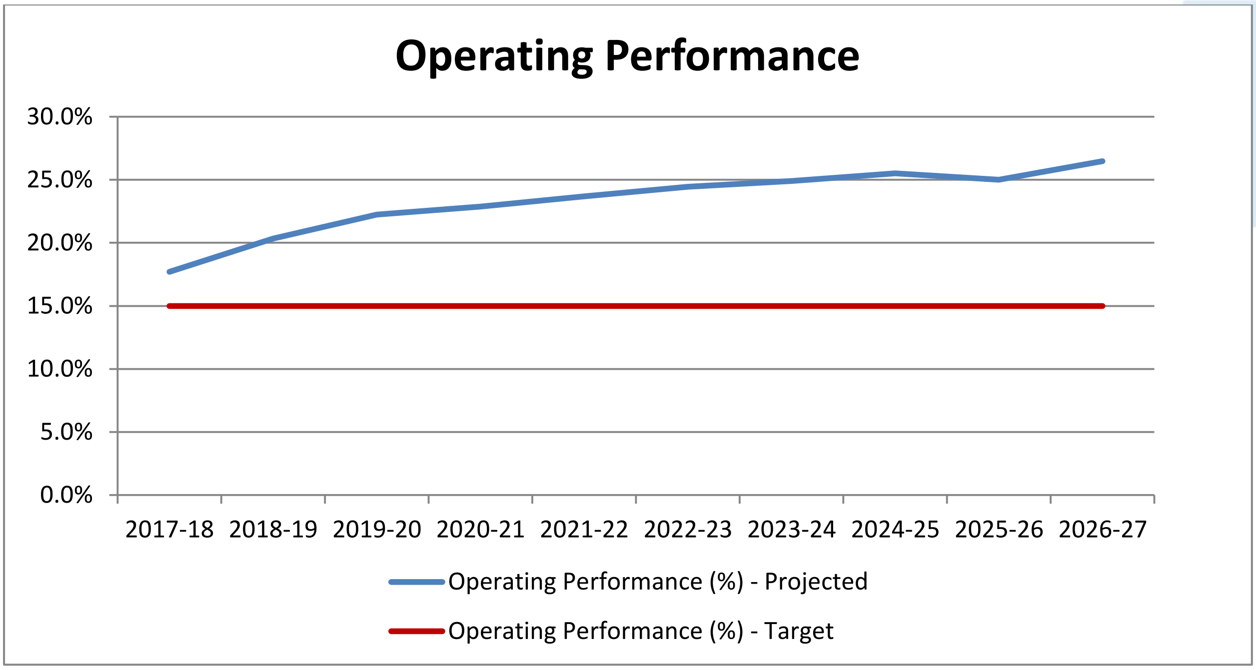
The operating surplus ratio is a measure of how recurrent revenues cover recurrent expenditures (including interest expense and depreciation). The following graph outlines the forecast operating surplus ratio over the ten years in the financial forecast:



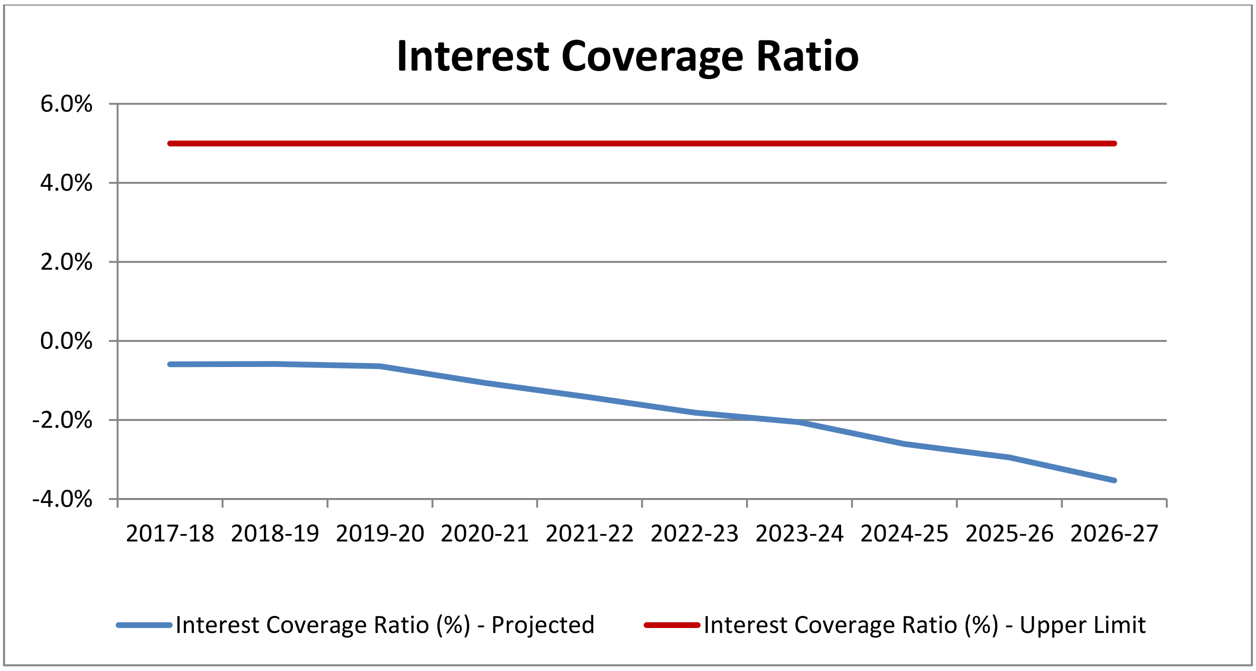
Council's operating performance can also be measured on a cash basis (as opposed to the accrual basis above). Cash from operations comprises:

- receipts from customers
- payments to suppliers and employees
- interest revenue; and
- borrowing costs.

Council's cash flow cycle during the financial year is impacted by the non-reciprocal nature of rates revenue although this is not seen in the long-term financial forecast as the rating cycle aligns to the financial year.



The Operating Performance Ratio measures net cash from operations as a percentage of total cash operating revenues. The target is set by Council and the ratio has been meaningful in previous years when Council had focussed on operating cash flows over investing or financing cash flows. In recent years, Council has looked to shift the burden from ratepayers and diversify its portfolio with the creation of a wholly owned subsidiary Redland Investment Corporation (RIC). Returns from RIC are classified as investing and not operating and this shift in policy position has in the main impacted on the net cash from *operations*. Following the Local Government elections in 2016, the strategy and its key performance indicators have been reviewed and the target for the operating performance ratio has been reduced from 20 per cent to 15 per cent in view of the above.



The interest coverage ratio is a measure that outlines the percentage of recurrent (operating) revenue that is utilised for net interest. The Interest Coverage Ratio is less than zero when interest revenue is greater than interest expense.

6. Liabilities Management
6.1 Background

Council recognises several liabilities on its balance sheet including employee provisions, landfill remediation provision, borrowings and accounts payable. Council's largest liability in dollar terms is its borrowings.

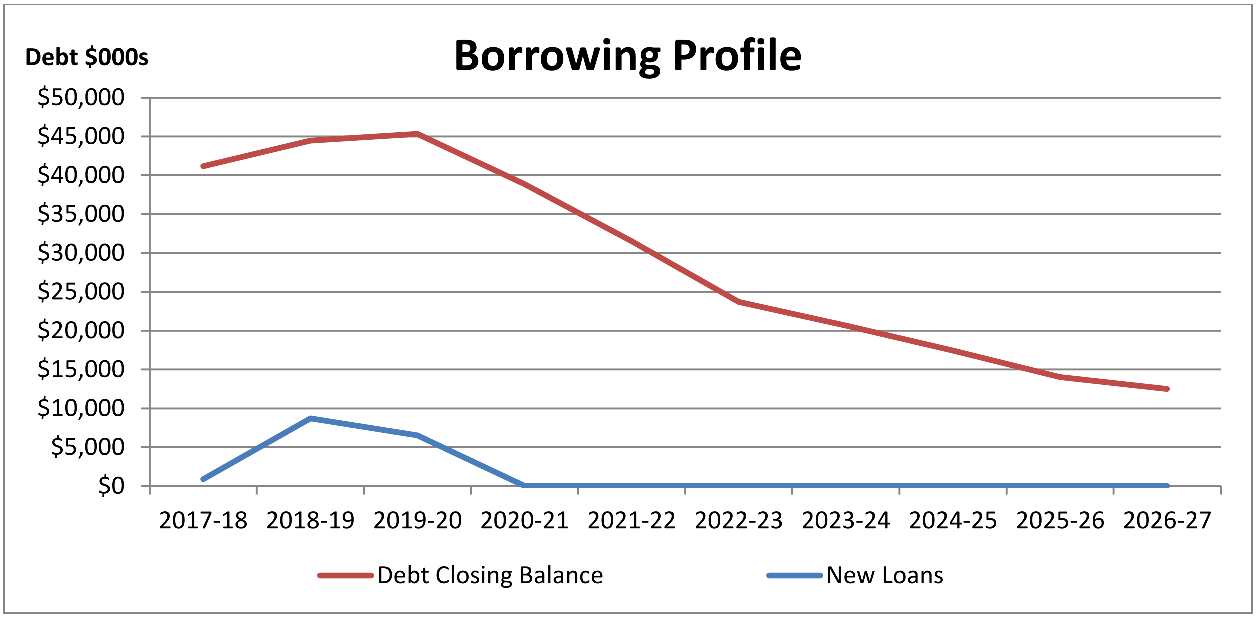
Council borrows from Queensland Treasury Corporation for works in one or more of the following three areas:

- risk management
- asset management
- intergenerational projects (projects with associated assets of 25 years or more useful life).

Council holds debt for different categories of works and borrows for periods between two and 20 years. Council's debt is recorded in the financial management system at book value and officers hold regular reviews to ensure the book rates and the repayment amounts remain appropriate to repay the debt over the original term.

Historically, debt was repaid *quarterly* in advance to reduce interest expense although from the 14-15 financial year Council adopted the policy statement to *annually* prepay the debt service amounts providing sufficient cash balances existed. Council continues to hold the policy position of reducing the community's debt when cash balances are sufficient enough to fund works without increasing liabilities and this annual prepayment further reduces the interest expense associated with the borrowings. As debt was borrowed when interest rates were higher, currently the cost of debt is higher than the returns on investments.

The following chart illustrates Council's current risk appetite to reduce debt balances over the life of this financial plan although a review is undertaken of this policy position on an annual basis when updating the debt policy and this strategy.



In relation to the ten year financial model, debt management will be monitored to ensure affordability and support the achievement of the financial sustainability targets. Management attention will continue in the following areas:

- capital project prioritisation in conjunction with Council's Capital Works Prioritisation Policy – due to the requirement to be able to identify capital projects that have the ability to be debt funded
- net debt position – Council has adopted the policy position to utilise cash balances and constrained cash reserves where applicable and appropriate although is mindful of the impacts on the net debt position
- interest risk exposure – due to the requirement to minimise exposure to interest rate fluctuations
- only borrowing when necessary – Council has limited new borrowings forecast in the life of the strategy due to healthy cash balances and the desire to utilise constrained cash reserves over debt. Council frequently reviews its borrowing requirements and can change this policy position to suit business and community needs in line with the borrowing application timeframes of the Department of Local Government, Community Recovery and Resilience.

The second largest liability on Council's balance sheet is the landfill rehabilitation provision. Council has an obligation to maintain the closed landfills in the city and the liability is calculated from a ten year model that forecasts the future works. The calculation to determine the provision is carried out in accordance with the *Australian Accounting Standards Board (AASB) 137 – Provisions, Contingent Liabilities and Contingent Assets.*

Council also accounts for the annual leave and long service leave benefits that will be required to be paid out to officers following seven years' service. The annual calculation to determine this provision is in accordance with *AASB 119 Employee Benefits.*

6.2 Liabilities Management Policy Statements

6.2.1 Debt Policy Statement

Council's debt policy objective is to ensure the sound management of Council's existing and future debt after assessing and minimising all associated risks in accordance with this strategy.

6.2.2 Landfill Rehabilitation Policy Statement

Council levies a Landfill Remediation Separate Charge and its policy position is to commit to long-term funding for the remediation of all closed landfills and manage financial, safety and environmental risks to meet statutory requirements and wider community benefit.

6.2.3 Employee Benefits

With respect to employee provisions, Council complies with the Australian Accounting Standards and ensures a liability is recognised for employees' services. Of note, annual leave is classified as a payable and long service leave is recorded as a provision.

6.3 Liabilities Management Policy Guidelines

The Strategy has adopted the following approaches 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
- borrowings will only be for capital works, never recurrent expenditure
- effectively manage its risks, and ensure risks undertaken are reasonable and necessary
- effectively manage its exposure to unfavourable interest rate changes
- council will continue to underpin debt with specific jobs and work programs that have been undertaken in the same financial year and will not use debt for general funding purposes
- regularly engage QTC for independent advice on financial sustainability.

With respect to landfill rehabilitation provision, Council considers the following:

- environmental monitoring, site investigations, minor works, maintenance, design and major capping works are included in the programs for closed landfill rehabilitation
- economies of scale will be considered in addition to cross Council capital and operational planning
- all expenditure from the separate charge will be within scope, i.e. for closed landfill rehabilitation
- risk reduction and legislative compliance will form the basis for expenditure decisions.

6.4 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Improved processes around financing of capital projects results in optimisation of borrowings	Likely	Medium	**High**
Technology improvements, economies of scale or efficiencies reduce the costs associated with closed landfill rehabilitation	Possible	Medium	**Medium**
Improved management of Annual Leave and Long Service Leave reduces liabilities	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Asset management planning identifies a growing infrastructure backlog that requires debt funding	Likely	Medium	**High**
Accumulation of contingent liabilities not covered via self- insurance	Unlikely	Medium	**Medium**
Interest rates increase significantly over the ten years and future loans cost significantly more	Possible	Medium	**Medium**
Net debt turns unfavourable due to cash balances being utilised faster than debt is repaid	Possible	Low	**Medium**
Council establishes a risk appetite to extinguish debt before the end of the loan term generating a market value realisation cost	Unlikely	Low	**Low**
Reduced ability to repay borrowing costs and early repayment of debt	Unlikely	Low	**Low**

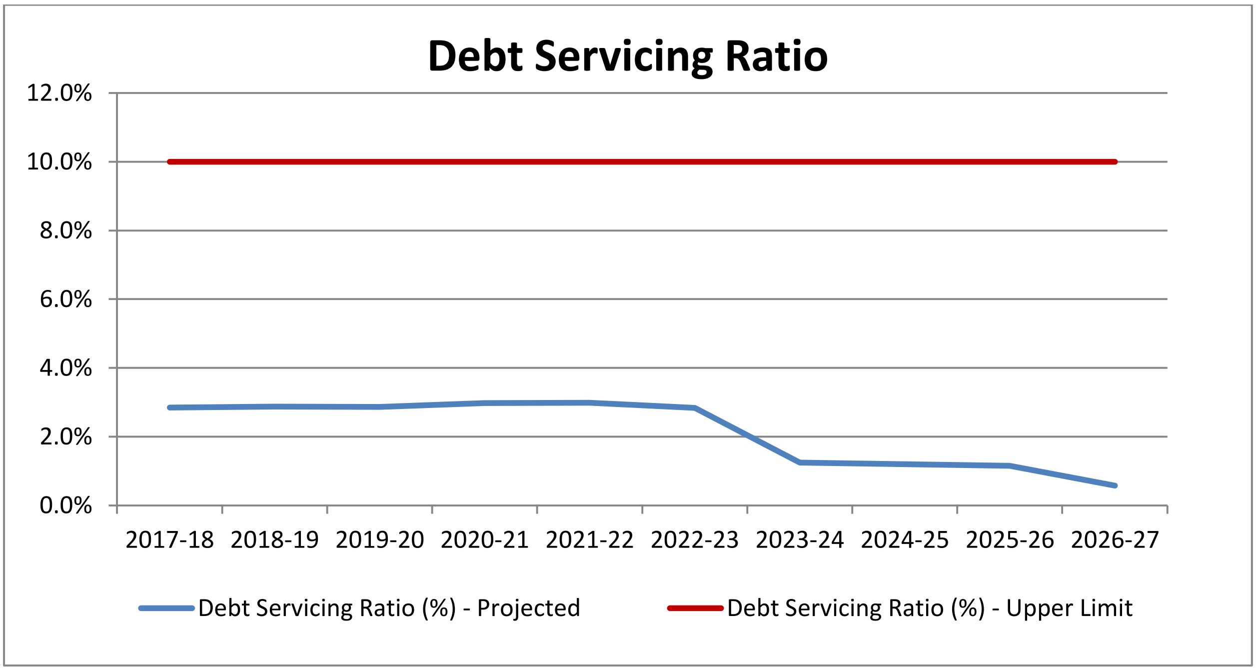
Risks can be described as things that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

In order to mitigate the above risks or explore the opportunities, the following projects and actions continue across Council:

- Council will review its ten year capital program simultaneously to its annual review of the financial strategy. The ten year capital program will align to the requirements of the Capital Works Prioritisation Policy and the

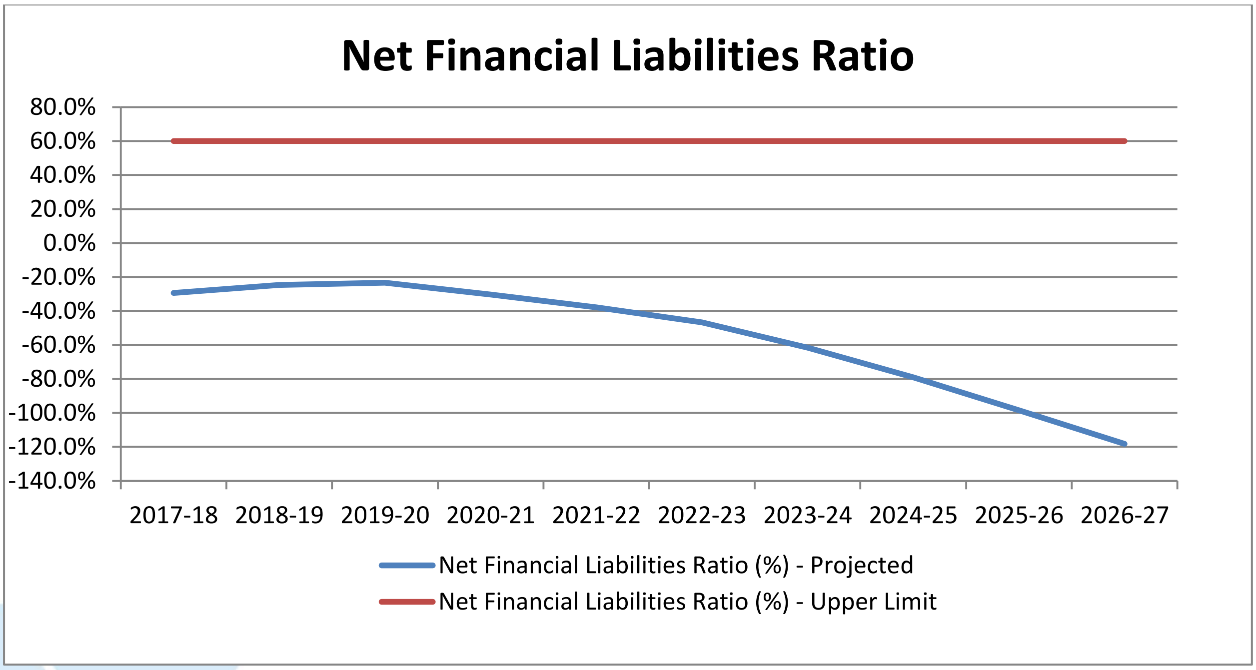
long-term financial forecast will then determine whether borrowing is required for jobs either of an risk management, asset management or intergenerational nature
- further consideration will be given to capitalise interest expense – identification of qualifying assets
- Council will continue to work with QTC and request credit/sustainability reviews or similar where practicable to ensure current budgeting, forecasting and financing assumptions and parameters are reasonable.

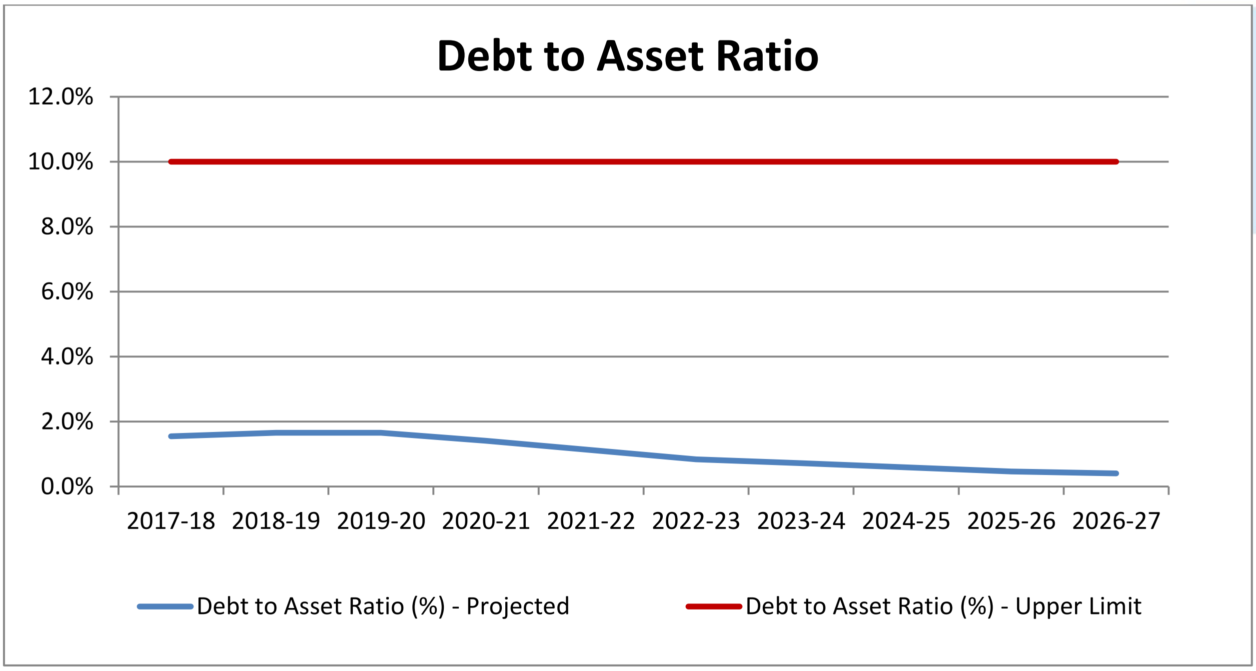
6.5 Key Performance Information



The above graph illustrates Council can clearly cover the principal and interest payments associated with borrowings. In recent years, Council has utilised surplus cash as a preference over increasing liabilities on the community's balance sheet.

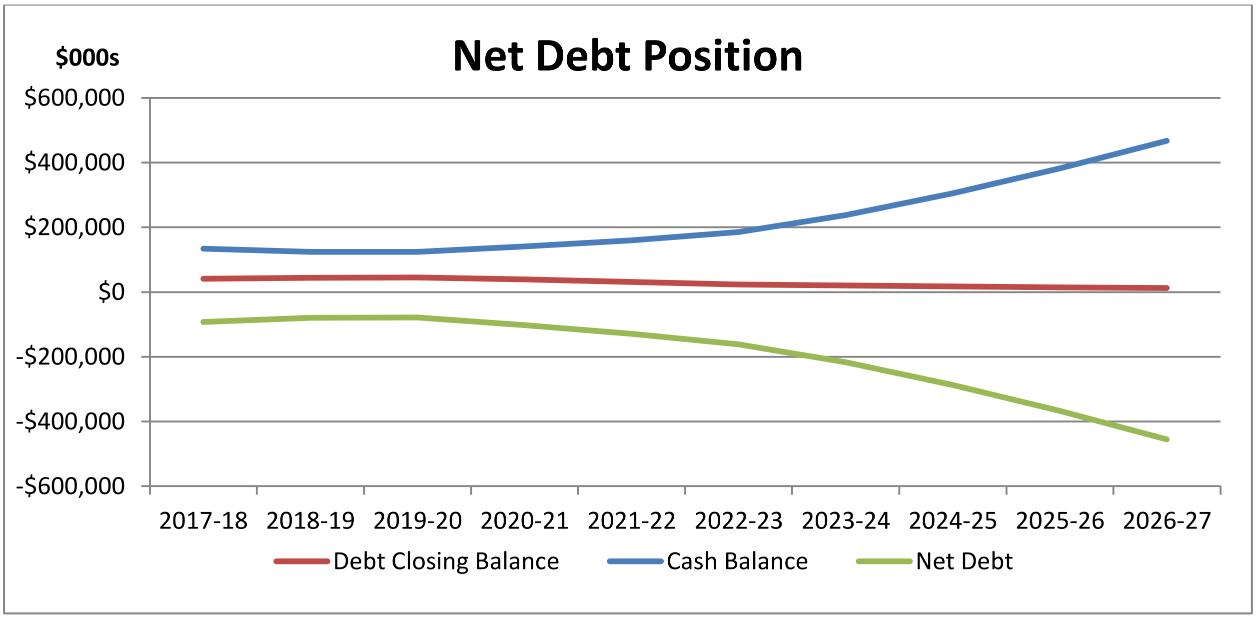
The following chart evidences Council's ability to fund its net financial liabilities from recurrent revenues. Council's balance sheet is very healthy with respect to working capital (current assets – current liabilities) as seen in an earlier chapter. The net financial liabilities ratio also considers the non-current liabilities in addition to current liabilities and subtracts the current assets before considering this amount as a percentage of total operating revenue.





Council's asset base is in the order of $2.5 billion dollars and debt is decreasing substantially over the long-term forecast.

In addition to the aforementioned ratios and key performance indicators, Council is aware of its net debt position. Net debt is calculated as total debt (current plus non-current) minus cash and cash equivalents. The net debt measure is a factor in the QTC sustainability reviews and is stated as a risk above due to Council's commitment to utilise surplus cash balances and constrained cash reserves. If debt exceeds cash at any time, this is a signal although not necessarily a major concern provided Council can still service the debt.



7. Equity Management
7.1 Background

Community equity on Council's Statement of Financial Position comprises:
- asset revaluation surplus
- retained earnings (profits from previous years)
- constrained cash reserves.

As mentioned previously, constrained cash reserves are monies that have been received for a particular purpose and can be from sources including special charges, developer contributions or grants, contributions or donations.

7.2 Equity Management Policy Statements

Council's utilisation of the asset revaluation surplus is in accordance with the Australian Accounting Standards.

Council holds the following policy position with respect to reserves:

- funds are only restricted for current or future planned expenditure
- reserves will not exceed cash balances at the end of each financial year.

7.3 Equity Management Policy Guidelines

The Strategy has adopted the following approaches in relation to equity management:

- community equity will always be budgeted to grow from one year to the next, even in the case of one off operational deficits – i.e. when operating deficits are forecast, capital revenue streams will be sourced to ensure community equity continues to grow
- expenditure will be funded from grants and subsidies and/or reserves before unrestricted cash and borrowings are considered.

8. Implementation and Linkage

8.1 Background

Council reviews its Long-Term Financial Forecast at least annually in accordance with the *Local Government Regulation 2012*. Typically, the long-term financial strategy is implemented for year one through the annual budget development process. The 2017-2027 financial Strategy has been updated as part of the 2017-18 annual budget adoption to ensure the key performance indicators and measures of sustainability are still within acceptable levels prior to budget adoption. Following annual budget adoption, the ten year forecast is also updated following each formal budget review to ensure understanding of in-year decisions on the long-term sustainability of Council.

8.2 Implementation and Linkage

As mentioned previously, Council's Financial Strategy and Long-Term Financial Forecast are elements within our broader Financial Management System that includes the:

- Corporate Plan
- Long Term Asset and Service Management Plans (ASMPs)
- Annual Budgets
- Operational Plans
- Financial Policies
- Ten Year Capital Program (input to the long term financial forecast).

The implementation of each element of the strategy is through the broader financial management system. Council utilises its key financial policies to implement strategic direction in the asset, debt, investment, procurement, revenue and capital works sectors.

We will implement the Strategy:

- over ten 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 programs which are aligned with Corporate Plan objectives. Through the Portfolio Management Office, significant 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 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 the Consumer Price Index (CPI)
- through continued integration between 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
- by adhering to a sustainable borrowing policy which may see increases in affordable borrowings over the medium-term aimed at supporting capital spending in accordance with the Strategy objectives.

8.3 Implementation Control and Issues

From an operational perspective, the implementation of the strategy is an opportunity to unite the organisation in its financial management. The Operational Leadership Group (middle and senior managers) meets frequently to review performance against financial targets and discuss congruence between operational works and strategic goals.

Council utilises scorecards to monitor performance against many strategies, required outcomes from the financial strategy are included in these scorecards. Council also continuously (through its monthly financial reports, formal budget reviews and associated variance analysis, financial workshops and Audit Committee):

- challenges assumptions within the strategy
- reviews the financial stability and measures of sustainability targets
- reviews the key performance indicators for appropriateness
- benchmarks performance against comparable local governments.

Council continues to implement business intelligence software which will provide budget managers and owners with another tool to assess performance against the strategy.

With respect to issues, Council continues to review its Activity Based Costing (ABC) methodologies and Service Level Agreements (SLAs). These two fundamental areas ensure connection between operational decisions and strategic intent. Additionally, Council is cascading financial targets further down the organisation to ensure entity level targets and line items are achieved in an efficient manner and not through 'across the board' reductions where practicable. Each budget development process is iterative by nature to ensure the final position is financial sustainable. Through better costing, SLAs, target cascade and business intelligence improvements, the number of iterations should decrease to drive efficiencies in the way Council implements its financial strategy.

9. Commercial Opportunities

9.1 Background

Every year as part of its budget development process, Council reviews its Revenue Policy. The current policy highlights the overarching position we presently hold:

In order to minimise price increases on residents through the General Rate, Council is committed to exploring additional or alternative revenue streams through the establishment of business activities under the National Competition Policy framework where this is appropriate and in accordance with policy. In doing this the following principles will be considered:

- *The adoption of a business activity is to ensure that the creation of a competitive environment will encourage Council to better identify and specify what it actually does and why.*
- *The determination of the standard and quality of each business activity required 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.*

9.2 Policies associated with Commercial Businesses

Council maintains the current policies to support the decision making process with respect to commercial businesses:

- application of Dividends and Tax Equivalent Payments
- Dividend Policy – Business Activities
- Competitive Neutrality Complaint Process
- Community Service Obligation Policy.

Industry specific policies include but are not limited to:

- application of Water Charges
- application of Wastewater Charges
- Trade Waste Policy.

9.3 Redland Investment Corporation

Council is currently in the process of strengthening its financial position, as well as seeking ways to minimise rate increases for ratepayers. In 2015, Council established Redland Investment Corporation (RIC), an independent company set up with the objective to investigate and create alternative streams of revenue for Council. The ownership of a number of assets has been transferred from Council to RIC since this time. The projected financial returns to Council rom RIC are included in the financial strategy as follows:

Long-Term Financial Forecast	2017-18 $000s	2018-19 $000s	2019-20 $000s	2020-21 $000s	2021-22 $000s	2022-23 $000s	2023-24 $000s	2024-25 $000s	2025-26 $000s	2026-27 $000s
RIC Returns	2,200	2,500	2,625	2,756	2,894	3,038	3,190	3,350	3,517	3,693

9.4 Existing Commercial Opportunities

Council currently has two commercial business units, namely:

- Redland Water
- RedWaste.

The two units adhere to the requirements of the *Local Government Act 2009,* the *Local Government Regulation 2012* and the Local Government Tax Equivalents Regime (LGTER) in addition to heads of power relevant for their particular industries. Financial accounting, budget development and reporting for the commercial business units considers the Code of Competitive Conduct, Competitive Neutrality Principles, Pricing Provisions, Community Service Obligations (subsidies) and also Full Cost Pricing in addition to the standard considerations undertaken by officers and Councillors.

During each annual budget development process, specific workshops are allocated to the commercial businesses where the financial modelling and outputs (financial statements and long-term price paths) are considered in detail alongside the aforementioned statutory requirements. Additionally, each commercial business unit compiles an Annual Performance Plan.

Council's budget adoption and formal reviews outline the impacts to the two commercial businesses through the inclusion of operating and capital funding statements at the commercial business level. Council's long-term financial modelling at entity level includes specific parameters and assumptions for the commercial businesses to ensure congruence and alignment in financial management.

In addition to the above commercial opportunities, Council has a wholly owned subsidiary, named Redland Investment Corporation Pty Ltd (RIC). RIC was established to identify alternative revenue sources and new business opportunities for the Redlands community. The entity also manages some of Council's underutilised land with an objective to improve the use or gain best value for these assets that do not meet the Redland Open Space Strategy or the Redlands 2030 Community Plan. RIC also has in place a service level agreement with Council to act as the preferred commercial consultant for the Priority Development Area (PDA) projects. RIC operates under the *Local Government Act 2009* and the *Corporations Act 2001*.

With respect to the Priority Development Areas in Cleveland and Redland Bay, the Walker Group has been appointed the preferred partner for both areas. Both Cleveland (Toondah Harbour) and Redland Bay (Weinam Creek) were designated Priority Development Areas by the Queensland Government with the desired outcome to transport, tourism and businesses within Redland City.

9.5 Key Risks, Issues and Mitigation Strategies

Opportunity	Likelihood	Consequence	Rating
Revenue streams for Council that reduce price increases on residents through general rates	Likely	Medium	**High**
Demand to live in Redland City - official government modelling anticipates by 2061 the population will grow from 22.7 million (2012) to 48.3 million	Likely	Medium	**High**
Reduction of maintenance costs on idle assets - surplus land currently has a maintenance cost but does not generate revenue	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Reputation Risk - Council selling land that the community would like to retain	Possible	Medium	**Medium**
Current forecasts of gain on sale of developed land may not eventuate due to changes in market conditions	Unlikely	Low	**Low**

Risks 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 or explore the opportunities, the following projects and actions continue across Council:

- Council will continue to demand prudency and efficiency in all decisions made by its existing commercial businesses Redland Water and RedWaste
- Separate operating and capital funding statements will continue to be produced for Redland Water and RedWaste, to track performance against forecasts and budgets
- Council will be represented at the Redland Investment Corporation Board meetings to ensure forecast returns from RIC to Council remain realistic
- RIC will submit quarterly reports to Redland City Council General Meetings track performance against expectations.

10. Appendices

10.1 Long-Term Financial Forecast Statements

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF COMPREHENSIVE INCOME	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Recurrent revenue										
Rates, levies and charges	227,186	239,109	249,111	257,940	267,149	276,741	286,721	297,115	307,918	318,111
Fees and charges	13,048	13,882	14,770	15,723	16,738	17,821	18,973	20,200	21,507	22,898
Rental income	839	864	890	917	945	975	1,005	1,037	1,069	1,102
Interest received	4,361	4,062	4,346	5,540	6,226	7,077	7,951	9,975	11,395	13,936
Investment returns	2,200	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Sales revenue	3,823	3,938	4,056	4,180	4,308	4,442	4,581	4,724	4,871	5,023
Other income	684	705	726	748	771	795	820	846	872	899
Grants, subsidies and contributions	9,497	9,005	9,315	9,669	8,890	9,257	9,662	10,085	10,526	10,986
Total recurrent revenue	**261,639**	**274,066**	**285,838**	**297,474**	**307,921**	**320,147**	**332,904**	**347,331**	**361,676**	**376,648**
Capital revenue										
Grants, subsidies and contributions	33,013	36,738	36,219	33,608	35,122	36,425	37,916	40,993	43,103	39,246
Non-cash contributions	3,213	3,209	3,279	3,349	3,422	3,496	3,580	3,666	3,745	3,826
Total capital revenue	**36,226**	**39,947**	**39,498**	**36,958**	**38,544**	**39,921**	**41,496**	**44,659**	**46,848**	**43,072**
TOTAL INCOME	**297,865**	**314,013**	**325,336**	**334,432**	**346,464**	**360,067**	**374,400**	**391,990**	**408,524**	**419,721**
Recurrent expenses										
Employee benefits	85,677	86,035	88,153	90,282	92,382	94,568	96,807	99,101	101,714	104,333
Materials and services	125,787	122,642	129,656	134,609	138,434	143,568	149,621	156,071	166,274	168,714
Finance costs	3,112	2,773	2,837	2,712	2,179	1,630	1,470	1,299	1,118	1,050
Depreciation and amortisation	58,200	60,676	63,606	68,223	70,595	72,962	75,560	77,225	77,156	76,760
Total recurrent expenses	**272,775**	**272,127**	**284,252**	**295,826**	**303,590**	**312,728**	**323,459**	**333,697**	**346,262**	**350,857**
Capital expenses										
Loss on disposal of non-current assets	289	(108)	138	237	334	(182)	254	353	21	492
Total capital expenses	**289**	**(108)**	**138**	**237**	**334**	**(182)**	**254**	**353**	**21**	**492**
TOTAL EXPENSES	**273,064**	**272,018**	**284,390**	**296,063**	**303,924**	**312,546**	**323,713**	**334,050**	**346,283**	**351,349**
NET RESULT	**24,801**	**41,994**	**40,946**	**38,369**	**42,541**	**47,521**	**50,687**	**57,940**	**62,241**	**68,372**
Other comprehensive income/(loss)										
Items that will not be reclassified to net result										
Revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	**24,801**	**41,994**	**40,946**	**38,369**	**42,541**	**47,521**	**50,687**	**57,940**	**62,241**	**68,372**

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF FINANCIAL POSITION	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Current assets										
Cash and cash equivalents	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702	467,491
Trade and other receivables	25,805	21,987	22,858	23,768	24,559	25,482	26,374	27,453	28,501	29,508
Inventories	678	678	678	678	678	678	678	678	678	678
Non-current assets held-for-sale	4,278	4,278	4,278	4,278	4,278	4,278	4,278	4,278	5,448	7,050
Other current assets	2,122	2,122	2,122	2,122	2,122	2,122	2,122	2,122	2,122	2,122
Total current assets	**166,533**	**152,802**	**153,856**	**172,237**	**191,666**	**218,243**	**271,360**	**339,188**	**418,452**	**506,850**
Non-current assets										
Investment property	1,054	1,054	1,054	1,054	1,054	1,054	1,054	1,054	1,054	1,054
Property, plant and equipment	2,483,228	2,535,071	2,576,424	2,590,835	2,607,428	2,621,486	2,616,916	2,604,836	2,585,875	2,564,845
Intangible assets	1,215	563	1,075	1,204	1,217	1,262	1,332	1,386	1,283	1,481
Other financial assets	73	73	73	73	73	73	73	73	73	73
Investment in other entities	5,961	5,961	5,961	5,961	5,961	5,961	5,961	5,961	5,961	5,961
Total non-current assets	**2,491,531**	**2,542,721**	**2,584,587**	**2,599,127**	**2,615,733**	**2,629,836**	**2,625,337**	**2,613,310**	**2,594,246**	**2,573,414**
TOTAL ASSETS	**2,658,064**	**2,695,523**	**2,738,443**	**2,771,364**	**2,807,399**	**2,848,079**	**2,896,697**	**2,952,498**	**3,012,698**	**3,080,264**
Current liabilities										
Trade and other payables	21,411	13,059	13,672	14,190	14,578	15,076	15,609	16,262	17,190	17,482
Borrowings	7,701	5,675	6,441	7,245	7,703	3,266	3,173	3,367	1,621	763
Provisions	13,126	10,540	10,795	11,061	11,308	11,565	11,825	12,094	12,394	12,673
Other current liabilities	1,755	1,807	1,861	1,918	1,977	2,039	2,102	2,168	2,236	2,305
Total current liabilities	**43,993**	**31,081**	**32,768**	**34,414**	**35,566**	**31,946**	**32,709**	**33,892**	**33,441**	**33,224**
Non-current liabilities										
Borrowings	33,461	38,803	38,899	31,627	23,815	20,453	17,501	14,077	12,402	11,753
Provisions	12,356	15,390	15,581	15,760	15,914	16,055	16,175	16,277	16,361	16,422
Total non-current liabilities	**45,817**	**54,193**	**54,481**	**47,387**	**39,729**	**36,508**	**33,676**	**30,354**	**28,763**	**28,175**
TOTAL LIABILITIES	**89,811**	**85,275**	**87,249**	**81,801**	**75,295**	**68,454**	**66,384**	**64,245**	**62,204**	**61,399**
NET COMMUNITY ASSETS	**2,568,254**	**2,610,248**	**2,651,194**	**2,689,563**	**2,732,104**	**2,779,625**	**2,830,312**	**2,888,253**	**2,950,494**	**3,018,865**
Community equity										
Asset revaluation surplus	963,349	963,349	963,349	963,349	963,349	963,349	963,349	963,349	963,349	963,349
Retained surplus	1,498,727	1,545,158	1,577,003	1,604,111	1,628,977	1,653,787	1,680,609	1,712,811	1,748,184	1,813,980
Constrained cash reserves	106,178	101,741	110,843	122,104	139,779	162,490	186,354	212,093	238,961	241,537
TOTAL COMMUNITY EQUITY	**2,568,254**	**2,610,248**	**2,651,194**	**2,689,563**	**2,732,104**	**2,779,625**	**2,830,312**	**2,888,253**	**2,950,494**	**3,018,865**

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF CASH FLOWS	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Cash flows from operating activities										
Receipts from customers	244,741	261,201	267,704	277,598	287,991	298,782	310,104	321,708	334,015	345,815
Payments to suppliers and employees	(210,402)	(216,785)	(216,959)	(224,142)	(230,245)	(237,465)	(245,746)	(254,384)	(266,919)	(272,665)
	34,340	**44,416**	**50,745**	**53,456**	**57,746**	**61,317**	**64,358**	**67,324**	**67,096**	**73,151**
Interest received	4,361	4,062	4,346	5,540	6,226	7,077	7,951	9,975	11,395	13,936
Rental income	839	877	888	915	943	973	1,003	1,034	1,066	1,100
Non-capital grants and contributions	9,547	9,134	9,291	9,638	8,954	9,226	9,631	10,048	10,489	10,948
Borrowing costs	(3,175)	(2,461)	(2,516)	(2,381)	(1,838)	(1,278)	(1,107)	(925)	(732)	(652)
Other cash flows from operating activities	-	-	-	-	-	-	-	-	-	-
Net cash inflow/(outflow) from operating activities	**45,912**	**56,028**	**62,754**	**67,168**	**72,031**	**77,315**	**81,836**	**87,455**	**89,315**	**98,482**
Cash flows from investing activities										
Payments for property, plant and equipment	(82,005)	(109,825)	(103,282)	(80,732)	(85,097)	(84,808)	(68,699)	(62,751)	(56,955)	(54,472)
Payments for intangible assets	(45)	(300)	(380)	(150)	(150)	(230)	(250)	(250)	(30)	(700)
Proceeds from sale of property, plant and equipment	1,180	1,577	1,330	1,232	1,134	1,650	1,214	1,115	1,447	976
Capital grants, subsidies and contributions	33,013	36,738	36,219	33,608	35,122	36,425	37,916	40,993	43,103	39,246
Other cash flows from investing activities	2,200	2,553	2,679	2,813	2,953	3,100	3,254	3,416	3,585	3,763
Net cash inflow/(outflow) from investing activities	**(45,656)**	**(69,258)**	**(63,433)**	**(43,229)**	**(46,039)**	**(43,862)**	**(26,565)**	**(17,476)**	**(8,849)**	**(11,186)**
Cash flows from financing activities										
Proceeds from borrowings	867	8,726	6,532	-	-	-	-	-	-	-
Repayment of borrowings	(4,644)	(5,410)	(5,670)	(6,468)	(7,354)	(7,799)	(3,046)	(3,229)	(3,421)	(1,507)
Net cash inflow/(outflow) from financing activities	**(3,777)**	**3,316**	**862**	**(6,468)**	**(7,354)**	**(7,799)**	**(3,046)**	**(3,229)**	**(3,421)**	**(1,507)**
Net increase/(decrease) in cash and cash equivalents held	**(3,521)**	**(9,914)**	**183**	**17,471**	**18,639**	**25,654**	**52,225**	**66,750**	**77,045**	**85,789**
Cash and cash equivalents at beginning of the financial year	137,171	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702
Cash and cash equivalents at end of the financial year	**133,650**	**123,736**	**123,919**	**141,390**	**160,029**	**185,683**	**237,907**	**304,657**	**381,702**	**467,491**

LONG-TERM FINANCIAL FORECAST - PROJECTED OPERATING STATEMENT	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Revenue										
Rates charges	91,688	98,631	103,471	108,585	113,991	119,642	125,545	131,710	138,148	144,190
Levies and utility charges	138,824	143,999	149,306	153,176	157,139	161,248	165,502	169,915	174,472	178,823
Less: Pensioner remissions and rebates	(3,325)	(3,521)	(3,666)	(3,820)	(3,981)	(4,149)	(4,326)	(4,510)	(4,702)	(4,903)
Fees and charges	13,048	13,882	14,770	15,723	16,738	17,821	18,973	20,200	21,507	22,898
Operating grants and subsidies	8,795	8,278	8,561	8,887	8,077	8,413	8,784	9,171	9,575	9,996
Operating contributions and donations	702	727	753	782	813	844	878	914	951	990
Interest external	4,361	4,062	4,346	5,540	6,226	7,077	7,951	9,975	11,395	13,936
Investment returns	2,200	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Other revenue	5,347	5,507	5,672	5,846	6,025	6,213	6,406	6,606	6,812	7,025
Total revenue	**261,639**	**274,066**	**285,838**	**297,474**	**307,921**	**320,147**	**332,904**	**347,331**	**361,676**	**376,648**
Expenses										
Employee benefits	85,677	86,035	88,153	90,282	92,382	94,568	96,807	99,101	101,714	104,333
Materials and services	126,040	122,934	129,988	134,983	138,851	144,031	150,131	156,629	166,882	169,374
Finance costs other	303	312	321	331	341	352	363	374	386	398
Other expenditure	489	482	475	469	463	457	451	445	439	434
Net internal costs	(741)	(774)	(807)	(843)	(881)	(920)	(961)	(1,003)	(1,048)	(1,094)
Total expenses	**211,767**	**208,990**	**218,130**	**225,222**	**231,157**	**238,488**	**246,791**	**255,546**	**268,374**	**273,445**
Earnings before interest, tax and depreciation (EBITD)	**49,872**	**65,076**	**67,708**	**72,252**	**76,764**	**81,659**	**86,113**	**91,785**	**93,302**	**103,203**
Interest expense	2,809	2,461	2,516	2,381	1,838	1,278	1,107	925	732	652
Depreciation and amortisation	58,200	60,676	63,606	68,223	70,595	72,962	75,560	77,225	77,156	76,760
Operating Surplus/(Deficit)	**(11,136)**	**1,939**	**1,586**	**1,648**	**4,331**	**7,419**	**9,445**	**13,634**	**15,414**	**25,791**

LONG-TERM FINANCIAL FORECAST - PROJECTED CAPITAL FUNDING STATEMENT	Year 1 2017-18 $000s	Year 2 2018-19 $000s	Year 3 2019-20 $000s	Year 4 2020-21 $000s	Year 5 2021-22 $000s	Year 6 2022-23 $000s	Year 7 2023-24 $000s	Year 8 2024-25 $000s	Year 9 2025-26 $000s	Year 10 2026-27 $000s
Proposed sources of capital funding										
Capital contributions and donations	29,250	31,090	32,611	32,480	33,292	35,124	37,133	40,187	42,273	38,391
Capital grants and bubsidies	3,763	5,648	3,608	1,129	1,830	1,301	783	806	830	855
Proceeds on disposal of non-current assets	1,180	1,577	1,330	1,232	1,134	1,650	1,214	1,115	1,447	976
Capital transfers (to) from reserves	(14,106)	12,265	(1,323)	(3,276)	(10,959)	(15,778)	(16,720)	(18,375)	(19,596)	(21,518)
Non-cash contributions	3,213	3,209	3,279	3,349	3,422	3,496	3,580	3,666	3,745	3,826
New loans	867	8,726	6,532	-	-	-	-	-	-	-
Funding from general revenue	66,106	56,230	66,573	55,786	67,304	70,539	49,586	42,496	35,452	37,975
Total sources of capital funding	**90,272**	**118,745**	**112,610**	**90,699**	**96,023**	**96,332**	**75,575**	**69,896**	**64,151**	**60,505**
Proposed applications of capital funds										
Contributed assets	3,213	3,209	3,279	3,349	3,422	3,496	3,580	3,666	3,745	3,826
Capitalised goods and services	74,965	100,137	94,260	73,546	77,515	77,325	62,696	57,287	51,816	50,168
Capitalised employee costs	7,085	9,988	9,402	7,336	7,732	7,713	6,254	5,714	5,169	5,004
Loan redemption	5,010	5,410	5,670	6,468	7,354	7,799	3,046	3,229	3,421	1,507
Total applications of capital funds	**90,272**	**118,745**	**112,610**	**90,699**	**96,023**	**96,332**	**75,575**	**69,896**	**64,151**	**60,505**
Other budgeted items										
Transfers to constrained operating reserves	(13,268)	(12,581)	(13,013)	(13,507)	(12,419)	(12,931)	(13,498)	(14,088)	(14,704)	(15,347)
Transfers from constrained operating reserves	11,565	11,266	11,911	12,366	12,717	13,189	13,745	14,337	15,275	15,499
Written down value (WDV) of assets disposed	1,468	1,468	1,468	1,468	1,468	1,468	1,468	1,468	1,468	1,468

10.2 Redland City Council Long-Term Financial Forecast Key Performance Indicators

LONG-TERM FINANCIAL FORECAST – MEASURES OF SUSTAINABILITY										
	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21	Year 5 2021-22	Year 6 2022-23	Year 7 2023-24	Year 8 2024-25	Year 9 2025-26	Year 10 2026-27
Operating Surplus Ratio	-4.26%	0.71%	0.56%	0.55%	1.41%	2.32%	2.84%	3.93%	4.26%	6.85%
Asset Sustainability Ratio (Infrastructure Assets Only)	59.25%	80.19%	71.10%	49.63%	52.80%	52.69%	53.68%	43.20%	40.40%	39.77%
Net Financial Liabilities Ratio	-29.32%	-24.64%	-23.30%	-30.40%	-37.79%	-46.79%	-61.57%	-79.16%	-98.50%	-118.27%

LONG-TERM FINANCIAL FORECAST – FINANCIAL STABILITY RATIOS										
	Year 1 2017-18	Year 2 2018-19	Year 3 2019-20	Year 4 2020-21	Year 5 2021-22	Year 6 2022-23	Year 7 2023-24	Year 8 2024-25	Year 9 2025-26	Year 10 2026-27
Level of Dependence on General Rate Revenue	33.93%	34.86%	35.07%	35.36%	35.87%	36.22%	36.55%	36.76%	37.03%	37.12%
Ability to Pay our Bills - Current Ratio	3.79	4.92	4.70	5.00	5.39	6.83	8.30	10.01	12.51	15.26
Ability to Repay our Debt - Debt Servicing Ratio	2.99%	2.87%	2.86%	2.97%	2.99%	2.84%	1.25%	1.20%	1.15%	0.57%
Cash Balance - $000s	133,650	123,736	123,919	141,390	160,029	185,683	237,907	304,657	381,702	467,491
Cash Balances - Cash Capacity in Months	7.51	6.77	6.78	7.49	8.27	9.33	11.57	14.32	17.11	20.53
Longer term Financial Stability - Debt to Asset Ratio	1.55%	1.65%	1.66%	1.40%	1.12%	0.83%	0.71%	0.59%	0.47%	0.41%
Operating Performance	17.69%	20.35%	22.24%	22.87%	23.69%	24.46%	24.90%	25.51%	25.02%	26.49%
Interest Coverage Ratio	-0.59%	-0.58%	-0.64%	-1.06%	-1.42%	-1.81%	-2.06%	-2.61%	-2.95%	-3.53%

10.3 Glossary – Key Performance Indicators

Definition of Ratios

Level of Dependence on General Rate Revenue: *This ratio measures Council's reliance on operating revenue from general rates (excludes utility revenues)*	General Rates - Pensioner Remissions Total Operating Revenue - Gain on Sale of Developed Land
Current Ratio: *This measures the extent to which Council has liquid assets available to meet short term financial obligations*	Current Assets Current Liabilities
Debt Servicing Ratio: *This indicates Council's ability to meet current debt instalments with recurrent revenue*	Interest Expense + Loan Redemption Total Operating Revenue - Gain on Sale of Developed Land
Cash Balance - $M:	Cash Held at Period End
Cash Capacity in Months: *This provides an indication as to the number of months cash held at period end would cover operating cash outflows*	Cash Held at Period End [[Cash Operating Costs + Interest Expense] / Period in Year]
Debt to Asset Ratio: *This is total debt as a percentage of total assets, i.e. to what extent will our long term debt be covered by total assets*	Current and Non-current loans Total Assets
Operating Performance: *This ratio provides an indication of Redland City Council's cash flow capabilities*	Net Cash from Operations + Interest Revenue and Expense Cash Operating Revenue + Interest Revenue
Operating Surplus Ratio*: *This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes*	Net Operating Surplus Total Operating Revenue
Net Financial Liabilities*: *This is an indicator of the extent to which the net financial liabilities of Council can be serviced by operating revenues*	Total Liabilities - Current Assets Total Operating Revenue
Interest Coverage Ratio: *This ratio demonstrates the extent which operating revenues are being used to meet the financing charges*	Net Interest Expense on Debt Service Total Operating Revenue
Asset Sustainability Ratio*: *This ratio indicates whether Council is renewing or replacing existing non-financial assets at the same rate that its overall stock of assets is wearing out*	Capital Expenditure on Replacement of Assets (Renewals) Depreciation Expenditure

* These targets are set to be achieved on average over the long-term

MAKE A DIFFERENCE MAKE IT COUNT

Redland CITY COUNCIL