Financial Strategy

2021 – 2031

Contents

Figures in tables and generally in the text throughout this document have been rounded. Any discrepancies in tables between totals and sums of components are due to casting.

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
1.2	May 2018	Insert scope. Incorporate final 2018-19 budget and forecast 10 year CAPEX and revised operating assumptions. Review and refresh of risks, opportunities and key performance indicators.	Rukmie Lutherus/ Deborah Corbett-Hall
1.3	May 2019	Incorporate final 2019-20 budget and forecast 10 year CAPEX and revised operating assumptions. Review and refresh risks, opportunities and key performance indicators.	Michael Wilson
1.4	June 2020	Incorporate final 2020-21 budget and forecast 10 year CAPEX and revised operating assumptions. Review and refresh risks, opportunities and key performance indicators.	Michael Wilson
1.5	June 2021	Incorporate final 2021-22 budget and forecast 10 year CAPEX and revised operating assumptions. Review and refresh risks, opportunities and key performance indicators.	Michael Wilson

1. Executive Summary, Overview and Scope

1.1 Executive Summary

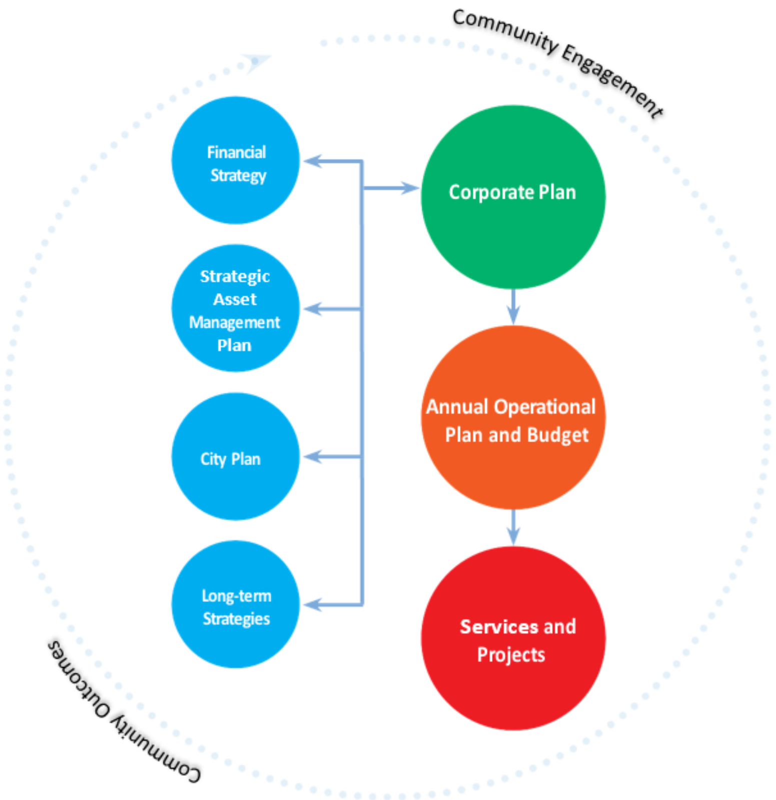
1.1.1 The Financial Strategy and Long-Term Financial Forecast

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). The LTFF is included in Council's annual budget, as required by section 169(2)(a) of the Regulation.

A key component of the Strategy is the Long-Term Financial Forecast. 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:

- Our Future Redlands – a Corporate Plan to 2026 and Beyond
- Long-Term Asset and Service Management Plans (ASMPs)
- Annual Budgets
- Operational Plans
- Financial Policies
- Capital works forecast (input to the LTFF).



Outputs from the Ten Year Financial Forecasting Model – Key Performance Indicators

LONG TERM FINANCIAL FORECAST – MEASURES OF SUSTAINABILITY										
	Year 1 2021-22	Year 2 2022-23	Year 3 2023-24	Year 4 2024-25	Year 5 2025-26	Year 6 2026-27	Year 7 2027-28	Year 8 2028-29	Year 9 2029-30	Year 10 2030-31
Operating Surplus Ratio	0.01%	0.04%	0.10%	0.15%	0.17%	0.20%	0.22%	0.26%	0.32%	0.36%
Asset Sustainability Ratio (Infrastructure Assets Only)	64.57%	68.19%	67.99%	73.29%	90.70%	67.48%	67.79%	67.97%	73.64%	77.71%
Net Financial Liabilities Ratio	-37.30%	-34.60%	-31.27%	-30.46%	-29.01%	-25.96%	-22.91%	-20.27%	-16.70%	-13.69%

LONG TERM FINANCIAL FORECAST – FINANCIAL STABILITY RATIOS										
	Year 1 2021-22	Year 2 2022-23	Year 3 2023-24	Year 4 2024-25	Year 5 2025-26	Year 6 2026-27	Year 7 2027-28	Year 8 2028-29	Year 9 2029-30	Year 10 2030-31
Level of Dependence on General Rate Revenue	34.96%	34.04%	33.55%	33.76%	33.46%	33.37%	33.38%	33.49%	33.56%	33.54%
Ability to Pay Our Bills - Current Ratio	3.82	3.98	3.88	3.77	3.82	3.92	3.79	3.65	3.53	3.39
Ability to Repay Our Debt - Debt Servicing Ratio (%)	3.27%	3.24%	1.92%	2.12%	2.24%	1.82%	1.64%	1.80%	1.92%	2.05%
Cash Balances - $000	198,990	200,530	203,720	211,717	215,390	217,727	219,775	219,827	219,863	220,509
Cash Balances - Cash Capacity in Months	9.61	9.34	9.17	9.31	9.12	8.89	8.72	8.40	8.10	7.80
Longer Term Financial Stability - Debt to Asset Ratio (%)	1.63%	1.83%	2.14%	2.41%	2.62%	2.95%	3.18%	3.32%	3.60%	3.83%
Operating Performance	21.15%	20.95%	21.83%	21.91%	21.62%	21.68%	22.55%	22.58%	22.61%	22.45%
Interest Coverage Ratio	-0.19%	-0.42%	-0.51%	-0.63%	-0.75%	-0.82%	-0.88%	-0.81%	-0.74%	-0.66%

Outputs from the Ten Year Financial Forecasting Model - Summary Financial Statements

LONG TERM FINANCIAL FORECAST – PROJECTED STATEMENT OF COMPREHENSIVE INCOME										
	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Total recurrent revenue	310,554	328,153	342,729	350,661	363,488	377,217	392,679	407,748	423,205	439,785
Total capital revenue	24,594	27,906	31,351	48,832	45,902	48,427	46,460	35,219	29,346	27,875
TOTAL INCOME	335,148	356,059	374,081	399,493	409,390	425,644	439,139	442,967	452,551	467,661
Total recurrent expenses	310,511	328,019	342,380	350,143	362,861	376,460	391,799	406,701	421,843	438,200
Total capital expenses	289	448	111	692	186	375	614	(0)	549	375
TOTAL EXPENSES	310,799	328,467	342,491	350,834	363,047	376,835	392,412	406,700	422,392	438,575
NET RESULT	24,349	27,591	31,589	48,659	46,343	48,808	46,727	36,267	30,159	29,086
Other Comprehensive Income/(Loss)	-	-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)	24,349	27,591	31,589	48,659	46,343	48,808	46,727	36,267	30,159	29,086

LONG TERM FINANCIAL FORECAST – PROJECTED STATEMENT OF FINANCIAL POSITION										
	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Total current assets	244,389	248,180	253,146	262,430	267,860	272,062	276,016	278,300	280,504	283,457
Total non-current assets	2,639,722	2,669,608	2,707,577	2,756,578	2,804,292	2,860,616	2,915,321	2,958,917	3,001,024	3,040,574
TOTAL ASSETS	2,884,111	2,917,788	2,960,722	3,019,008	3,072,152	3,132,678	3,191,337	3,237,218	3,281,528	3,324,031
Total current liabilities	63,972	62,299	65,318	69,573	70,066	69,484	72,746	76,180	79,566	83,588
Total non-current liabilities	64,576	72,334	80,661	86,033	92,340	104,639	113,309	119,490	130,254	139,650
TOTAL LIABILITIES	128,547	134,633	145,978	155,606	162,406	174,123	186,056	195,669	209,820	223,238
NET COMMUNITY ASSETS	2,755,563	2,783,155	2,814,744	2,863,403	2,909,746	2,958,554	3,005,282	3,041,548	3,071,707	3,100,793
TOTAL COMMUNITY EQUITY	2,755,563	2,783,155	2,814,744	2,863,403	2,909,746	2,958,554	3,005,282	3,041,548	3,071,707	3,100,793

Outputs from the Ten Year Financial Forecasting Model - Summary Financial Statements

LONG TERM FINANCIAL FORECAST – PROJECTED STATEMENT OF CASH FLOWS	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Net cash inflow/(outflow) from operating activities	66,654	68,272	74,445	76,533	78,195	81,356	88,113	91,569	95,185	98,190
Net cash inflow/(outflow) from investing activities	(43,642)	(72,059)	(80,002)	(77,053)	(81,685)	(90,667)	(94,866)	(97,610)	(105,628)	(106,584)
Net cash inflow/(outflow) from financing activities	1,936	5,326	8,747	8,516	7,164	11,648	8,801	6,092	10,479	9,039
Net increase/(decrease) in cash held	24,947	1,540	3,190	7,997	3,673	2,338	2,048	52	36	646
Cash and cash equivalents at the beginning of the year	174,043	198,990	200,530	203,720	211,717	215,390	217,727	219,775	219,827	219,863
Cash and cash equivalents at the end of the year	198,990	200,530	203,720	211,717	215,390	217,727	219,775	219,827	219,863	220,509

1.1.2 The Financial Strategy Objectives

The primary objective of the Strategy 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 then Department of State Development, Infrastructure, Local Government and Planning (formerly the Department of Local Government, Racing and Multicultural Affairs) produced the Financial Management (Sustainability) Guideline 2013 (last updated in 2020) 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 a city of *connected communities, naturally wonderful lifestyle and embracing opportunities*. 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.

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
- continue with rating reform including applying user pays principles where it is appropriate to do so
- optimise 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 assessing the deliverability of projects
- utilise returns from cash investments to minimise financial impacts on ratepayers
- investigate 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; ‘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 revenue and spending decisions to the Corporate Plan and specific project 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 the Corporate Plan 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 Plan. 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 (for example water and waste operations)
- known changes in Federal and State Government funding
- macro and micro economic factors

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 2021-22 is the base year for the LTFF
- no material growth in employee numbers for the life of the model
- new borrowings are subject to change to respond to the needs of the ten year capital program, ASMPs and also the Capital Portfolio Prioritisation Administrative Directive
- 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 account
- 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 LTFF.

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 statistical analysis as well as a correlation with projected population 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 two and three per cent (on average) over the cycle. This target range is considered as a contributing factor when forecasting Council's Cost Index which draws on the Brisbane CPI.

1.2.3 Financial Stability and Measures of Sustainability

A key objective of the Strategy is to ensure 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 an 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 mandatory measures of financial sustainability and a further eight elective financial stability indicators are all within target ranges, or exceeding them, for the term of this strategy, with the exception of the Asset Sustainability Ratio.

The Asset Sustainability Ratio remains below the target minimum of 90% as in previous forecasts. Council identifies appropriate asset renewal expenditure for each coming budget year and forecasts the expected longer term asset renewal requirements through Asset and Service Management Plans.

Council's Asset Management Project sought to improve and optimise 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, following embedding of Council's new asset management system.

The Queensland Audit Office (QAO) issued its report titled 'Forecasting Long-Term Sustainability of Local Government' (Report 2: 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 and embedding of the Portfolio Management Office (PMO).

A key driver of the recent Asset Management Project was 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 QAO. The Portfolio Management Office (PMO) was established to enhance governance, accountability and deliverability over operational and capital projects.

1.2.5 Key Financial Policies

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

Investment Policy

- Council is looking to achieve higher returns on its investments whilst protecting the capital value of investments
- 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 three months), Council will use existing surplus funds and only borrow when necessary for inter-generational 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 charges:
  - accountability
  - transparency
  - representation
  - sustainable financial management
  - fairness
  - differentiation of categories
  - special needs and user pays
  - social conscience

Corporate Procurement Policy

- Council is committed to achieving value for money when procuring
- Council also outlines 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 Service Management Administrative Directive

- 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 Portfolio Prioritisation Administrative Directive

- Council's Capital Portfolio Prioritisation Administrative Directive ensures the community's existing infrastructure will be maintained and further supports the objectives of the Asset and Service Management Administrative Directive
- 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.

Application of Dividends and Tax Equivalent Payment Policy

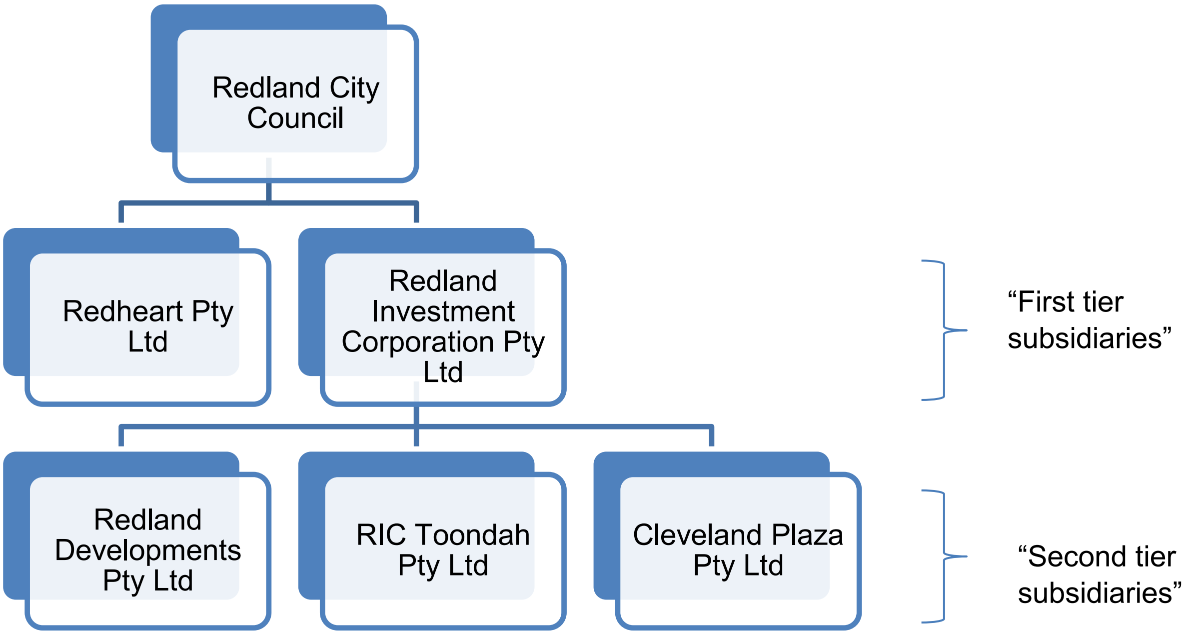
- Council receives dividends and tax equivalent payments from its commercial business activities (namely City Water and City Waste)
- Council may receive returns from its wholly owned subsidiary Redland Investment Corporation (RIC)
- All financial returns to Council will be applied to the provision of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

Constrained Cash Reserves Administrative Directive

- Council has collected rates, utilities and other revenue streams over the years and has ring-fenced certain monies for particular purposes. Council plans to utilise these 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 relevant and in the interest of the community.
- Council's reserves are cash backed and form a subset of cash balances.

1.3 Scope

This Financial Strategy includes the risks, opportunities and financial statements for Redland City Council. The Redland City Council group (refer diagram below) financial information is consolidated on an annual basis.



Redland Investment Corporation Pty Ltd (RIC) compiles its own budget and business plan. The benefits and opportunities of Council owning RIC are included in this parent entity Financial Strategy.

2. Parameters and Measures

2.1 Parameters

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

- growth increases (%)
- price increases (%)
- efficiency targets (%)

The parameters are the main drivers in the financial forecasting model although of note, the capital expenditure for each year and associated funding is derived from the ten year capital program.

Growth Increases %	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
General Rates Charges	1.04	1.01	0.91	0.77	0.39	0.96	1.62	1.63	1.47	1.33
General Fees	0.00	0.16	0.45	1.20	1.25	1.45	1.45	1.45	1.45	1.45
Employee Costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
General Operating Costs	0.52	0.51	0.46	0.39	0.20	0.48	0.81	0.82	0.74	0.67

Price Increases %	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Underlying CPI	1.05	1.34	1.63	1.92	2.21	2.50	2.50	2.50	2.50	2.50
RCC Blended CPI	1.42	1.85	2.01	2.17	2.34	2.50	2.50	2.50	2.50	2.50
Employee Costs (EBA)	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
General Rates	1.39	1.85	2.01	2.17	2.34	2.50	2.50	2.50	2.50	2.50
General Fees	4.50	4.50	4.50	4.50	2.50	2.50	2.50	2.50	2.50	2.50
Interest Rates	0.65	0.90	1.15	1.40	1.65	1.90	2.15	2.15	2.15	2.15

Efficiency Targets %	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Operational Goods & Services *	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

** To be considered post Covid-19 global pandemic.*

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 eight long standing performance measures outlined in the table below. The targets and target ranges are set by Council and reviewed annually to maintain relevance to business activities and goals. Council also chooses to set targets for, measure and report against the interest coverage ratio as this was previously labelled as a measure of sustainability by the Department of State Development, Infrastructure, Local Government and Planning (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 based on revised budget on a monthly basis.

Financial Stability Ratios	Target
Level of Dependence on General Rate Revenue (%)	Target less than 40%
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 15%
Cash Balance $M	Target greater than or equal to $50M
Cash Balances - Cash Capacity in Months	Target greater than 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 10%
Interest Coverage Ratio (%)	Target less than 5%

In addition to the ratios above, section 169(5) of the *Local Government Regulation 2012* requires councils to measure and report against:

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

Targets for these ratios are set by the Department 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 based on revised budget on a monthly basis. In accordance with section 169(5) of the *Local Government Regulation 2012*, Council's annual budget includes these measures for the relevant financial year and the following nine financial years.

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

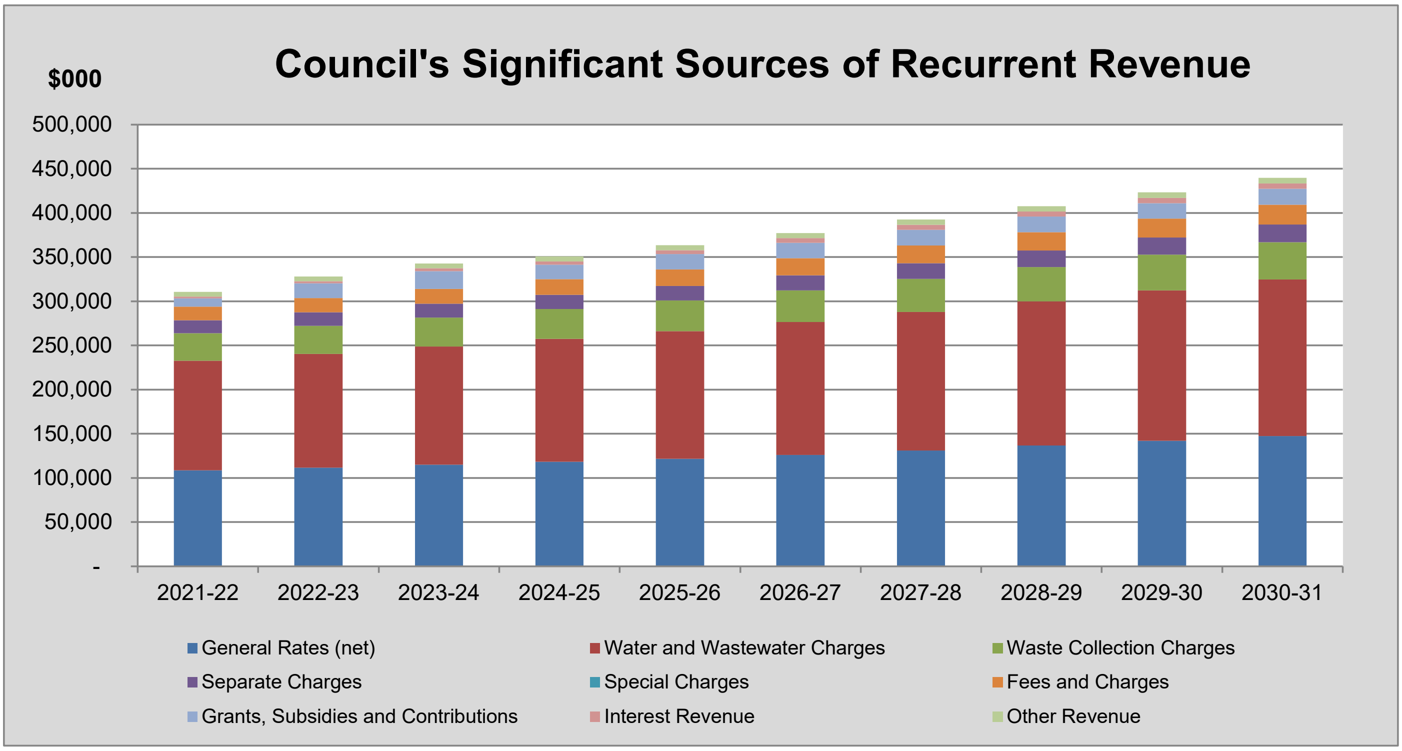
3. Revenue Management

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 and coastal management, landfill remediation and Redland City SES administration separate charges
- fees
- Federal and State grants, subsidies and contributions
- interest on investments
- other revenue (including sales of services 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 increases in general rates may be less than Council's Cost Index – 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.

Council will continue to price its separate and special charges through comprehensive financial modeling that takes into consideration the full cost of program of delivery including inflationary pressures. With respect to water, wastewater and waste collection modelling and pricing, please refer to the chapter on commercial opportunities.

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
- infrastructure charges – due to the seasonality of development and difficulty in estimating charges. Council's Infrastructure Planning and Charging Unit will address this risk
- borrowings – to ensure appropriateness and 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

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 focus on strategies to improve on the adopted position to move back towards a balanced budget or operating surplus (complete projects ahead of schedule and budget, save through better procurement and contracting, drive efficiencies through better work practices).

Council will be guided by the following principles for levying of rates and charges:

- 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 — whilst 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.

General rate revenue provides essential whole of community services not funded through subsidies, grants, contributions or donations received from other entities, or not provided for by other levies or charges.

Council will consider full cost recovery options before calculating the differential general rate.

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 focus is to protect 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:

- focusing on bottom line when considering general rate increases to minimise impact on the community
- establishing water pricing principles on a full cost recovery basis with an appropriate level of return to Council in accordance with the current *Local Government Act 2009*, *Local Government Regulation 2012* and other legislative instruments
- establishing waste collection and disposal fees and utility charges on a full cost recovery basis with an appropriate level of return to Council in accordance with the current *Local Government Act 2009*, *Local Government Regulation 2012* and other legislative instruments
- seeking to maximise revenue from external grants and subsidies where possible
- seeking to increase the level of commercial returns and broaden commercial opportunities
- using historical and current micro and macro-economic data and observations to forecast revenue growth assumptions.

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
Diversify revenue streams to reduce the dependence on general rates revenue	Possible	Low	**Medium**
Higher than anticipated cash balances resulting in additional interest revenue	Likely	Low	**Medium**
Support economic development and business growth through master planning of key precincts; incentives and stimulus packages; trade and investment attraction; implementation of the City's new destination brand 'Redlands Coast'; and development and implementation of action plans for key industry sectors identified in the Redland City Economic Development Framework 2014-2041	Likely	Low	**Medium**

Risk	Likelihood	Consequence	Rating
Ageing population unfavourably impacting pensioner remissions and community subsidies	Almost certain	Low	**High**
Water restrictions triggered when SEQ water storage levels decline to 60% capacity	Likely	Medium	**High**
General rate increases aligned with RCC Blended CPI where costs escalate at a greater rate	Almost certain	Low	**High**
The Covid-19 pandemic unfavourably impacting revenue streams as Redland City Council considers economic support packages	Almost certain	Medium	**High**
Further interest rate reductions, or interest rates maintained at historically low levels	Almost certain	Low	**High**
Potential reduction in service delivery due to insufficient funding from external parties	Possible	Medium	**Medium**
Potential financial impact of further water reform by State Government	Unlikely	Major	**Medium**
Water usage patterns have an adverse impact on revenues beyond current forecasts (e.g. due to droughts, water restrictions)	Possible	Medium	**Medium**
The uncertainty of future waste levy advance payments may result in less than anticipated revenue	Likely	Low	**Medium**
Government policy impacting on population growth forecasts and subsequently affecting general rate revenue projections	Possible	Medium	**Medium**
Growth assumptions (e.g. population, property, water consumption, waste volume) failing to crystallise resulting in less than anticipated revenue	Possible	Medium	**Medium**

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

- continue to enhance cash management forecasting methodologies and tools. Aim to increase returns on investments when interests rates are low and signal issues relating to cash-flow early
- continue to review Corporate Overhead Allocations and Activity Based Costing (ABC) methodologies. Aim to ensure commercialised business pricing, cost-recovery and commercial fees are premised on full cost pricing principles
- investigate and measure the potential impacts resulting from further water reform and State bulk water pricing reviews
- further develop the grants management process by establishing strong relationships with State and Federal stakeholders
- explore opportunities for alternate funding mechanisms to support business areas and reduce the burden on current and future ratepayers

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 for broadened strategic investments - see commercial opportunities	Possible	Severe	**Extreme**
Interest revenues exceed interest expense due to high cash balances	Almost Certain	Medium	**High**
Appropriately term-diversified investment portfolio results in additional revenue	Almost Certain	Low	**High**

Risk	Likelihood	Consequence	Rating
Constrained cash reserve balances exceed cash balances at the end of a financial year	Unlikely	Low	**Low**
Interest rates significantly below benchmark resulting in lower returns	Possible	Low	**Medium**
Council's net debt position deteriorates as cash balances reduce at a faster rate than increasing debt balances	Possible	Low	**Medium**

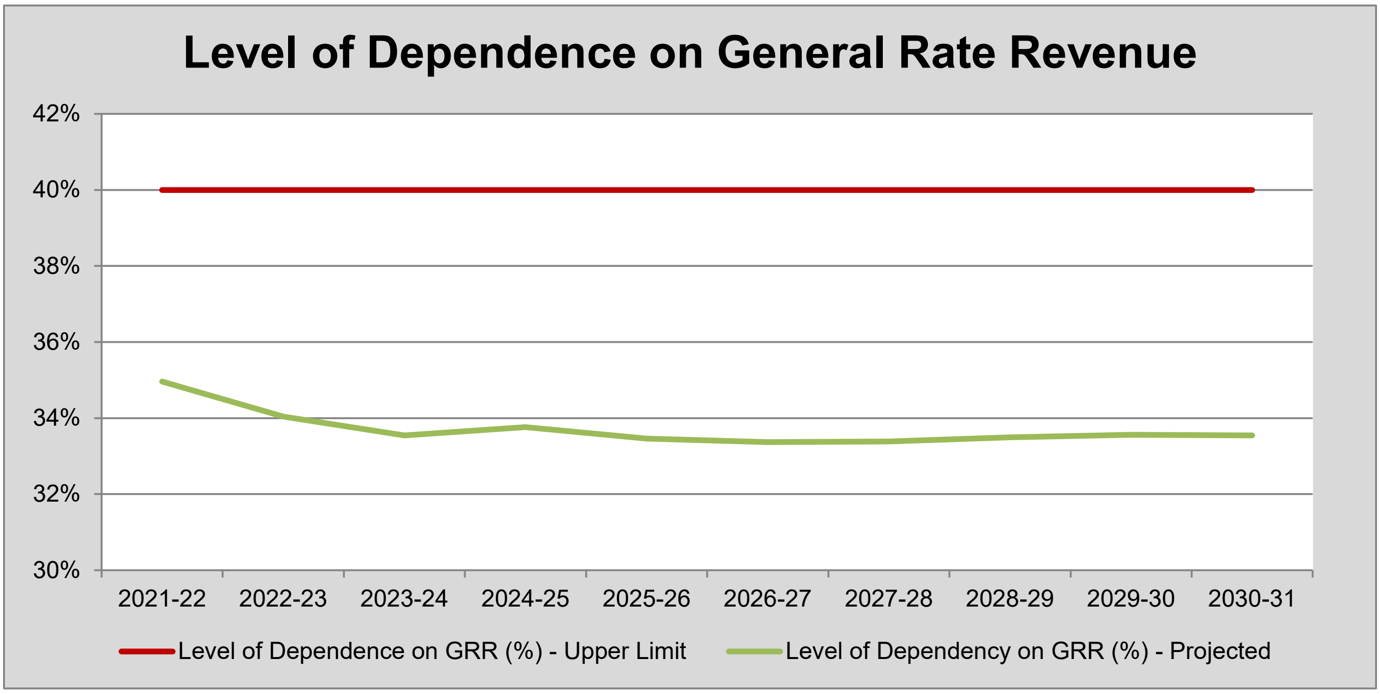
In order to mitigate the above risks or explore the opportunities, the following projects and actions progress across Council:

- continue to review investment returns and use this information when making decisions on investment options
- continue to consider all investment options in times of low interest rates (within Council's policy framework)
- continued organisational support to review funds held in trust (off balance sheet) and manage balances 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 an indicator performs over the life of the Strategy compared to the adopted target. As indicated in the ten year financial forecast statements and outputs, it is forecast that Council 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 an indication of the diversification of revenue streams, through Council's reliance on general rate revenue.



4. Asset 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, leased assets 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 $2.88 billion.

Effective asset management is critical to achieving Council's corporate objectives and strategic themes as driven by our community.

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 LTFF, the following asset and service management issues have been identified as those 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 favourably towards the target. 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 optimise depreciation cost allocation.

4.2 Asset and Service Management Administrative Directive

Council's Asset and Service Management Administrative Directive objective or goal is to provide excellent customer experience and support ongoing growth in the region through asset management, utilising industry best practice and current technology to meet the economic and sustainability principles highlighted in our Corporate Plan by:

- providing principles for, communication, governance, due diligence, direction and alignment of all asset management activities
- ensuring compliance with asset management requirements as prescribed by the Queensland State Government as it applies to Local Government
- ensuring Council produces and delivers against sustainable financial forecasts as a result of best practice Asset and Service Management Plans that guide project planning and service delivery across the city
- upholding the City's commitment to provide financially sustainable infrastructure in accordance with agreed reliable levels of services.

4.3 Asset and Service Management Guidelines

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

- Asset and Service Management Plans will drive borrowing decisions
- identification, scoping and completion of renewal projects in the ten year capital program will continue to be prioritised
- the integration of Asset and Service Management Plans and budgets is effected to ensure that whole-of-life asset and service 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 service 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 service management planning and corresponding financial forecasting, planning and reporting.

4.4 Asset Management Project

The successful implementation of Council's new asset system has ensured that we are an Asset Smart organisation – one that has a framework supported by policies, systems and appropriate technology to achieve best practice asset management.

The project recognised that many officers were undertaking outstanding work in informal asset management roles. The project created a more formal, consistent approach to asset management across the organisation, acknowledging those who understand and manage specific assets. More staff may now have asset management functions formally embedded as a part of their role.

The project drew on best practice (ISO 55000 series) to help staff clearly know asset management responsibilities. It also promoted the functions of asset management and that each and every asset is part of a bigger picture; from the office equipment we use to multi-million dollar wastewater treatment plants. The project provided business areas with the framework, tools and technology they need to clearly inform their daily working lives when managing assets on behalf of our community.

4.5 Strategic Asset and Portfolio Management Oversight

Strategic Asset and Portfolio Management consists of the Portfolio Management Office and a dedicated Strategic Asset Management Unit. The separation of the asset governance function from the asset accounting function is a recommendation by the Asset Management Project to ensure increased governance and better support to Council business areas.

4.6 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
Portfolio Management Office (PMO) will drive improved governance and financial efficiency of operational and capital projects	Almost Certain	Medium	**High**
Support asset managers with long-term projections for whole life costing	Likely	Medium	**High**
Asset management system developments generate improved information for recording, reporting, long-term financial forecasting and better asset management practices	Almost Certain	Medium	**High**
Council's Infrastructure Planning and Charging Unit improves the correlation between trunk infrastructure and Financial Strategy outcomes	Almost Certain	Medium	**High**
Review depreciation methodologies to ensure current approaches are still reflective of consumption patterns	unlikely	Medium	**Medium**
Council's Capital Portfolio Prioritisation Administrative Directive improves performance in asset KPIs	Possible	Medium	**Medium**

Risk	Likelihood	Consequence	Rating
Significant failure of critical infrastructure leads to financial stress	Possible	Major	**High**
Assets are not at the level required for optimal service delivery	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**
Increased risk of collectability in accounts receivable due to Covid-19	Possible	Medium	**Medium**
Material misstatement of financial statements due to non-capitalisation of assets	Rare	Medium	**Low**
Increasing public liability claims for injuries occurring in Council owned or controlled facilities or land	Rare	Medium	**Low**
Increasing legal action for discrimination arising from inability to access council facilities and non-compliance with the *Disability Discrimination Act 1992 (Cth)*	Rare	Low	**Low**

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

- continued embedding of Council's new asset management system

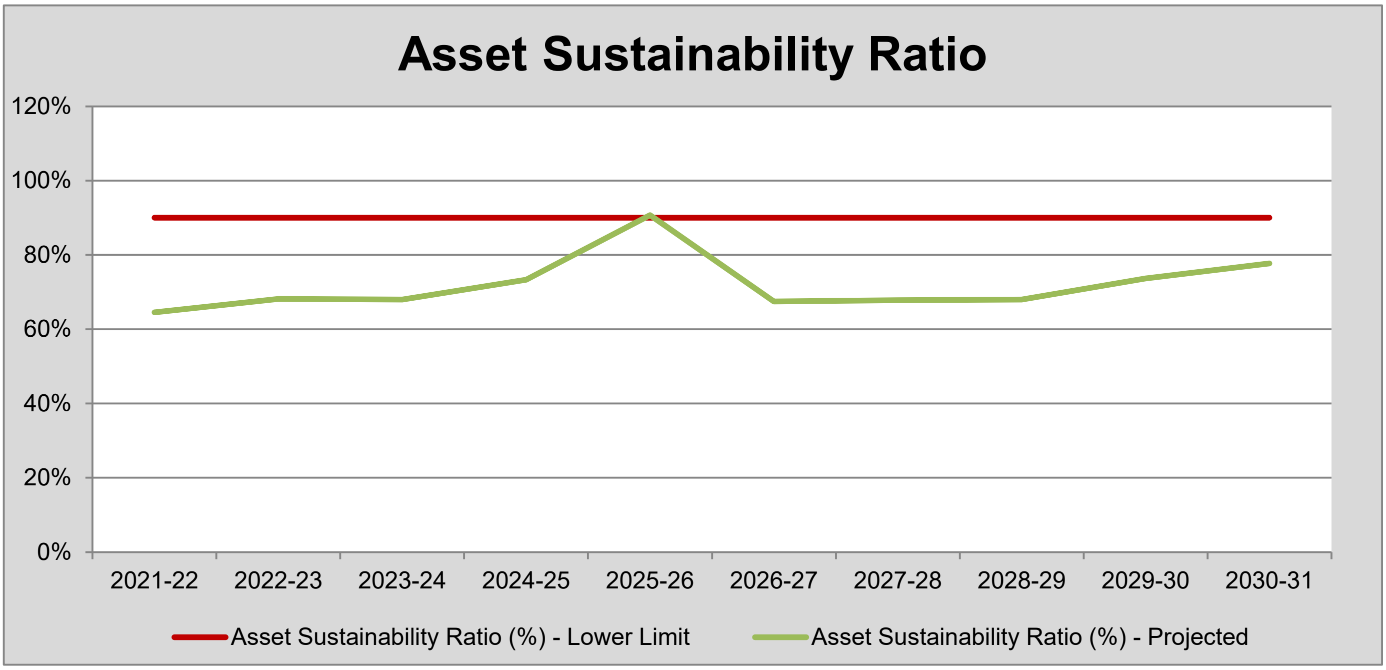
- ongoing development of Asset and Service Management Plans in accordance with statutory requirements, business needs and agreed service levels
- continuation of the Infrastructure Planning and Charging Unit to ensure Council is maximising opportunities for recovery of appropriate costs with respect to trunk infrastructure
- continue to develop the maturity of the Portfolio Management Office (PMO). Enhanced maturity will lead to enriched processes, stronger/ appropriate governance and improved deliverability for operational and capital projects
- continue to review the effectiveness of the asset management system in the following areas: enhanced asset management practices and integration of asset planning, budget development and long-term financial forecasting
- further investigation and development on a condition based depreciation methodology (if appropriate)
- developing an improved understanding of the remaining useful lives for Council's asset base

4.7 Key Performance Information

The asset sustainability ratio target is 'an average over the long-term'. Council has a Capital Portfolio Prioritisation Administrative Directive that requires expenditure on renewals before new asset creation – this should improve Council's performance against the ratio.

To ensure continuation of existing service levels, planning and development of Asset and Service Management Plans for the 2021-22 portfolio focused on the renewal requirement of Council's existing asset base. Council's current prioritisation model supports the policy of prioritising renewals, and these two factors together support improvements in asset sustainability. However, this must be balanced with investment to cater for growth across the city.

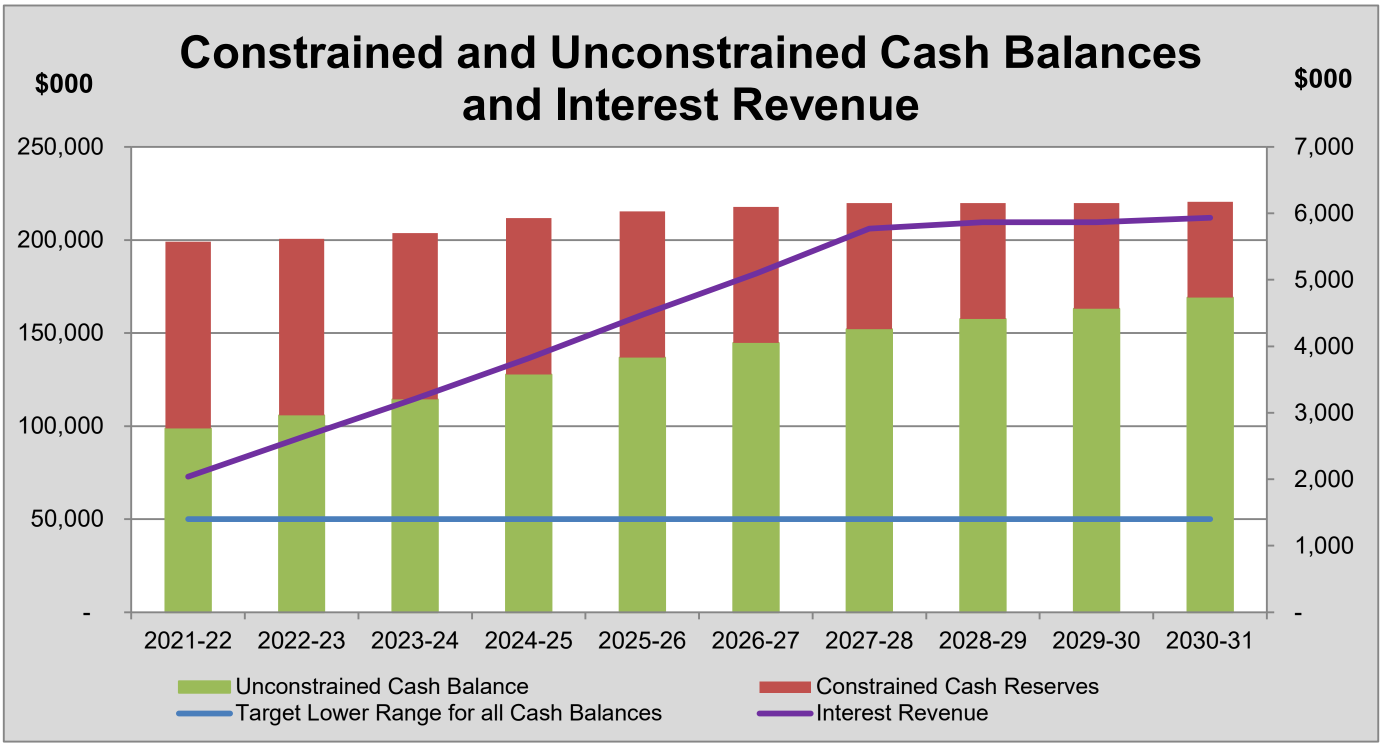
The current ten year capital program and depreciation forecasts result in the following graph:



In addition to property, plant and equipment, Council holds considerable cash balances. 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.

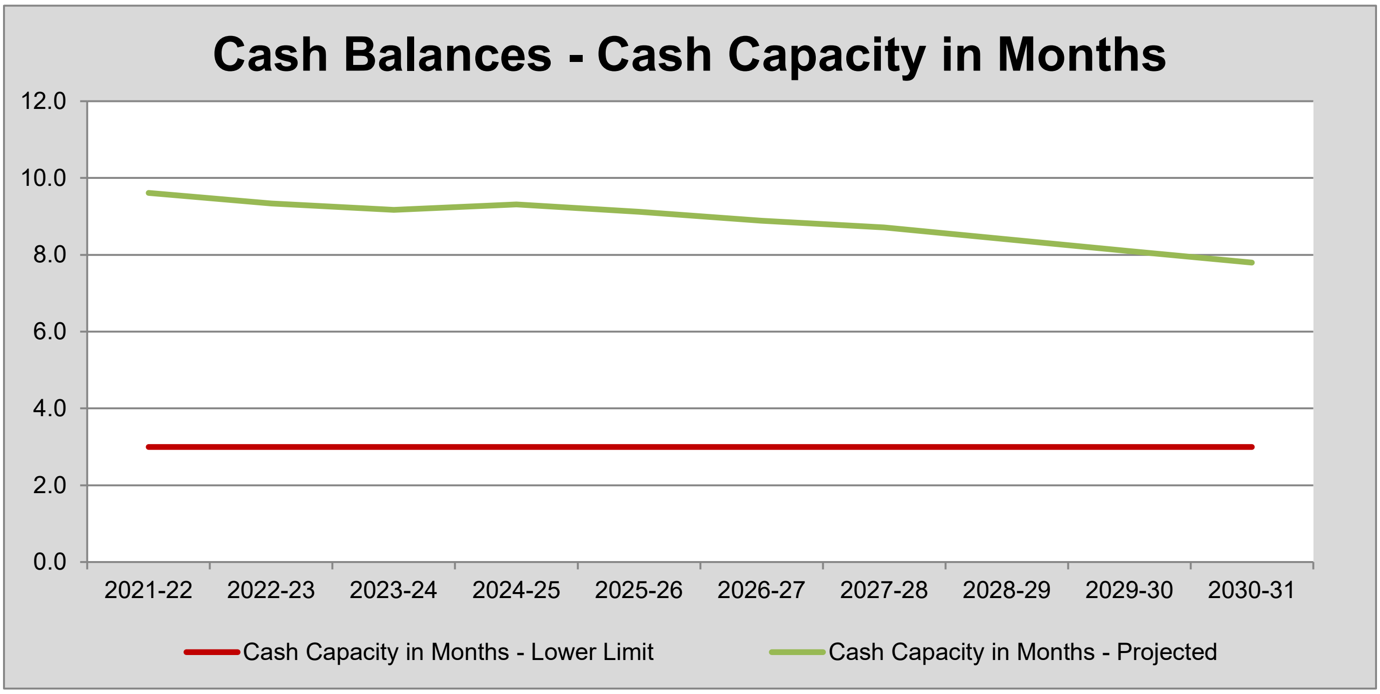
Reserves are a subset of community equity and sit alongside retained earnings. Whilst retained earnings can be utilised for general expenditure, reserves are ring-fenced for particular purposes. Council policy requires that all reserve monies are fully cash-backed. Council annually reviews its reserves to ensure the constraining of cash continues to be 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 forecasting model the following investment income and expenditure considerations continue to be monitored:

- cash flow forecasting – improvements in the budgeting, forecasting and particularly phasing of cashflows 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 – exploring increased returns by diversifying the institutions that funds are invested in or by varying the terms of those investments.



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).

Council's adopted Local Government Infrastructure Plan (LGIP), which identifies significant infrastructure requirements, has been incorporated in Asset and 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

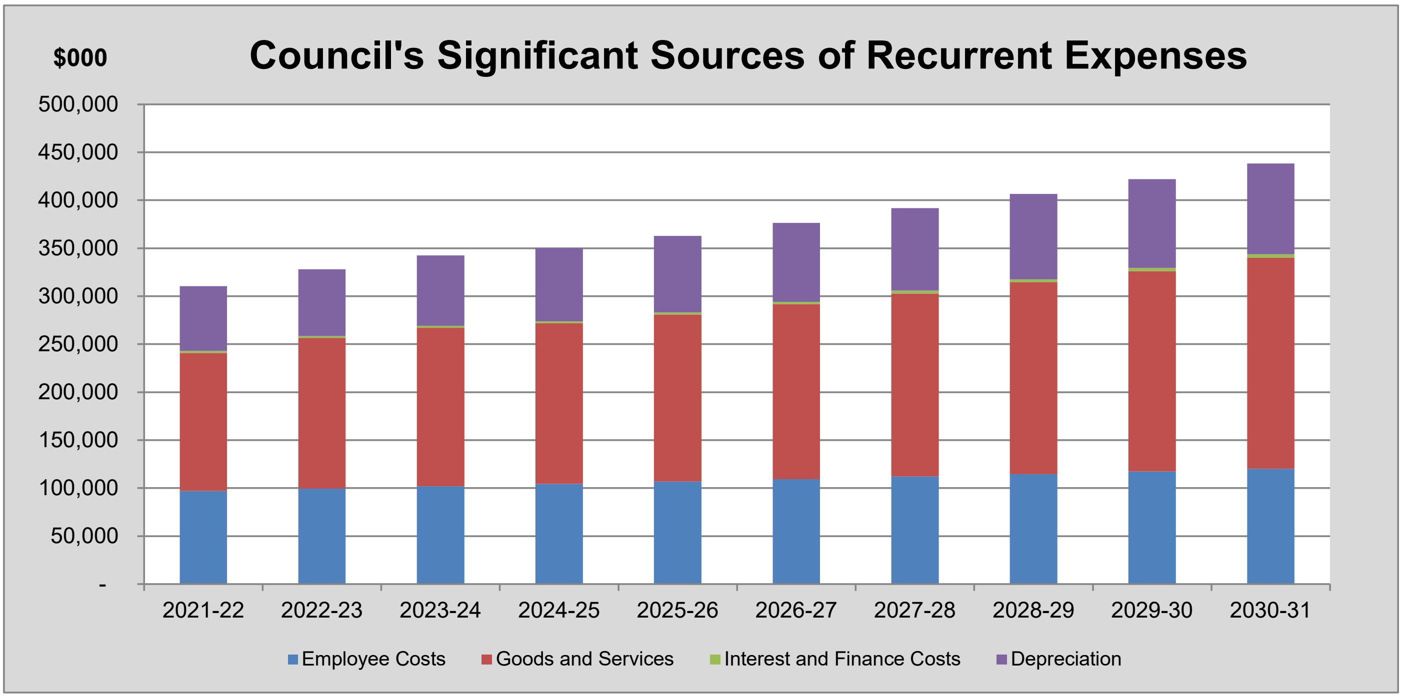
5.1 Background

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)

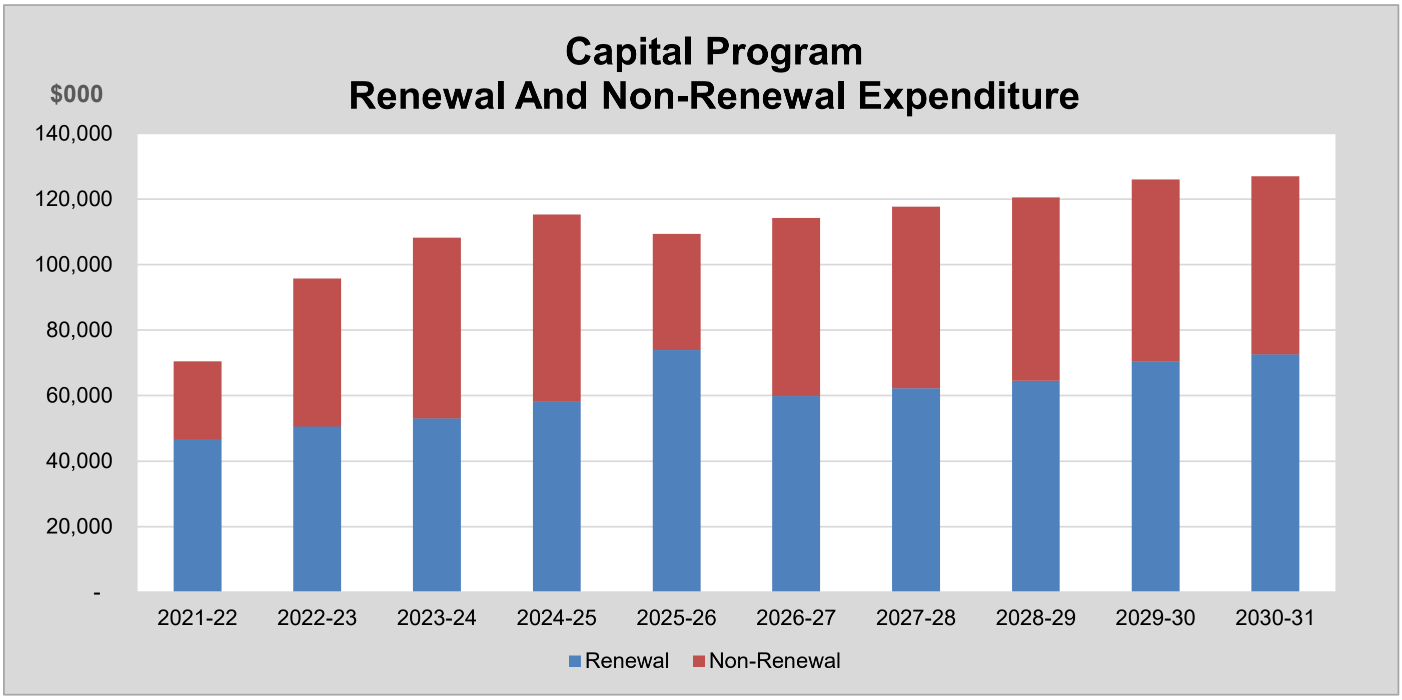
Of note, Council's interest and depreciation expenditure is impacted by the requirement to have leased assets on the balance sheet which then depreciate over the term of the lease.

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 Portfolio Prioritisation Administrative Directive - 'maintain existing infrastructure – 'renewal' before 'upgrade' or 'new' work.



Due to the risks and assumptions in operational revenues mentioned in the previous chapter, the following expenditure streams have been identified as those that 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 one to five
- 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 Portfolio Prioritisation Administrative Directive
- Federal and State grants and subsidies
- infrastructure charges – due to the seasonality of development and difficulty in estimating charge. Council will continue to operate the Infrastructure Planning and Charging Unit to address this risk
- borrowings – to ensure appropriateness and 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 Council 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 may be 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
- continually improve service delivery 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 the 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 Portfolio Prioritisation Administrative Directive

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**
Transform supplier relations to create a Strategic Procurement platform to drive expenditure management through advanced planning, scheduling, group buying, supply chain management, increased competition and keen negotiation	Almost Certain	Medium	**High**
Continued improvements in the asset accounting space to ensure assets are recorded and depreciated accurately	Almost Certain	Medium	**High**
Establish a strategic land acquisition system that provides a framework and methodology for Council to nominate site specific and non-site specific land targets.	Likely	Medium	**High**
Effective planning of agreed service levels leads to cost reduction	Possible	Medium	**Medium**
Investment in renewable energy sources could potentially mitigate energy pressures and reduce costs	Possible	Low	**Medium**

Opportunity	**Likelihood**	**Consequence**	**Rating**
Enhance control relating to consultants and temporary staff through implementation of an effective workforce strategy to manage increasing costs	Likely	Low	**Medium**

Risk	**Likelihood**	**Consequence**	**Rating**
Failure to reflect whole of life costs of services in forecasting	Likely	Medium	**High**
Significant waste management costs resulting from new State waste and resource recovery strategy citing ambitious growth targets to reduce waste to landfill	Likely	Medium	**High**
Staff turnover and improving skill levels through identified training up to meet market expectations	Likely	Medium	**High**
Unbudgeted expenditure resulting from unforeseen events such as natural disasters (fires, floods, drought etc.) and infrastructure failure	Almost certain	Medium	**High**
Reduction in existing service delivery due to cost shifting from other tiers of government.	Likely	Low	**Medium**
Future financial sustainability is impacted by failure to achieve operational ratios	Possible	Medium	**Medium**
Society becomes more litigious and legal expenses will increase	Possible	Low	**Medium**

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

- continued business process and service level reviews designed to determine the optimal level of efficiency and effectiveness
- continue to recognise provisions on the balance sheet where expenditure obligations are probable (50% or more likelihood of occurring)
- further develop the maturity of the Portfolio Management Office (PMO). Enhanced maturity will lead to enriched processes, stronger/ appropriate governance and improved deliverability for operational and capital projects
- *Local Government Regulation 2012* s173 (2) and (3) prescribes that a local government may spend money not authorised in its budget for genuine emergency or hardship if the local government makes a resolution about spending the money before, or as soon as practicable after, the money is spent. The resolution must state how the spending is to be funded. *Local Government Regulation 2012 s*173(4) also notes that if Council's budget is amended after the money is spent, the amended budget must take the spending into account.
- the self-funded Procurement Transformation Project continues to implement a strategic procurement model in Council to drive efficiencies and savings.

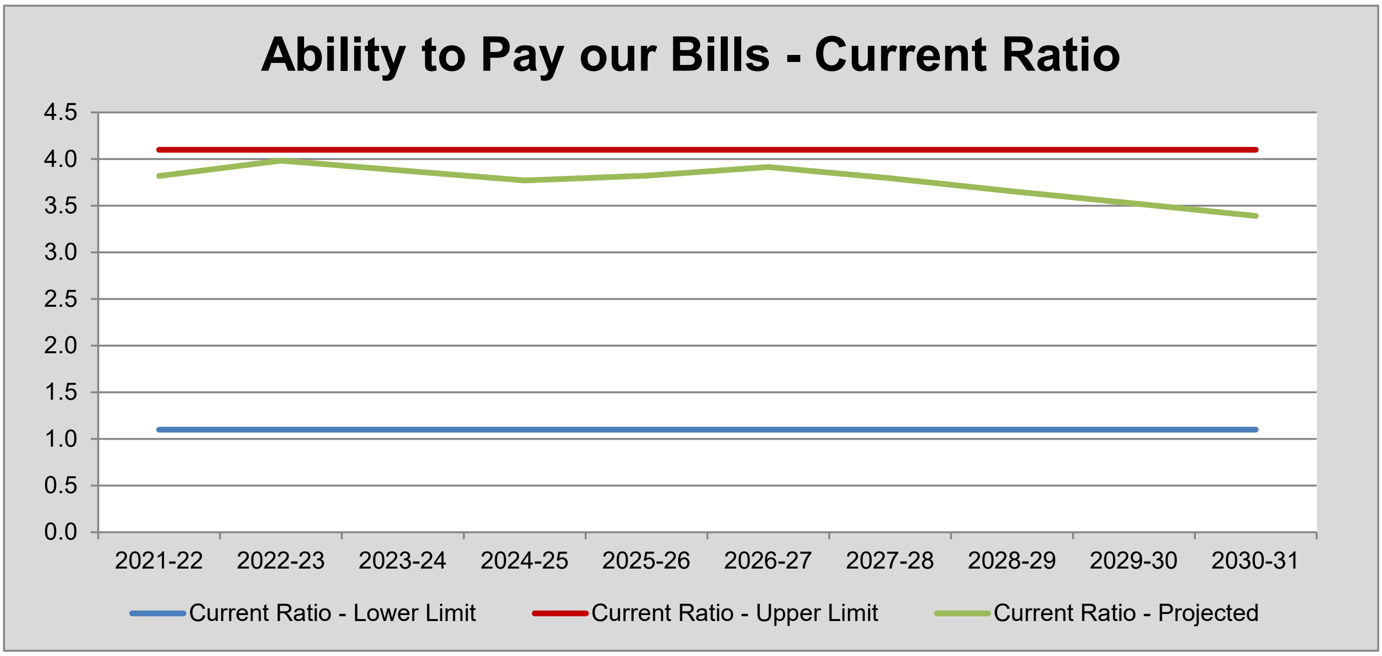
The following risks continue to be monitored before mitigation projects are initiated:

- potential for government cost shifting
- striking a balance between intergenerational projects (with initial upfront investments) and returning operating surpluses in consecutive years.

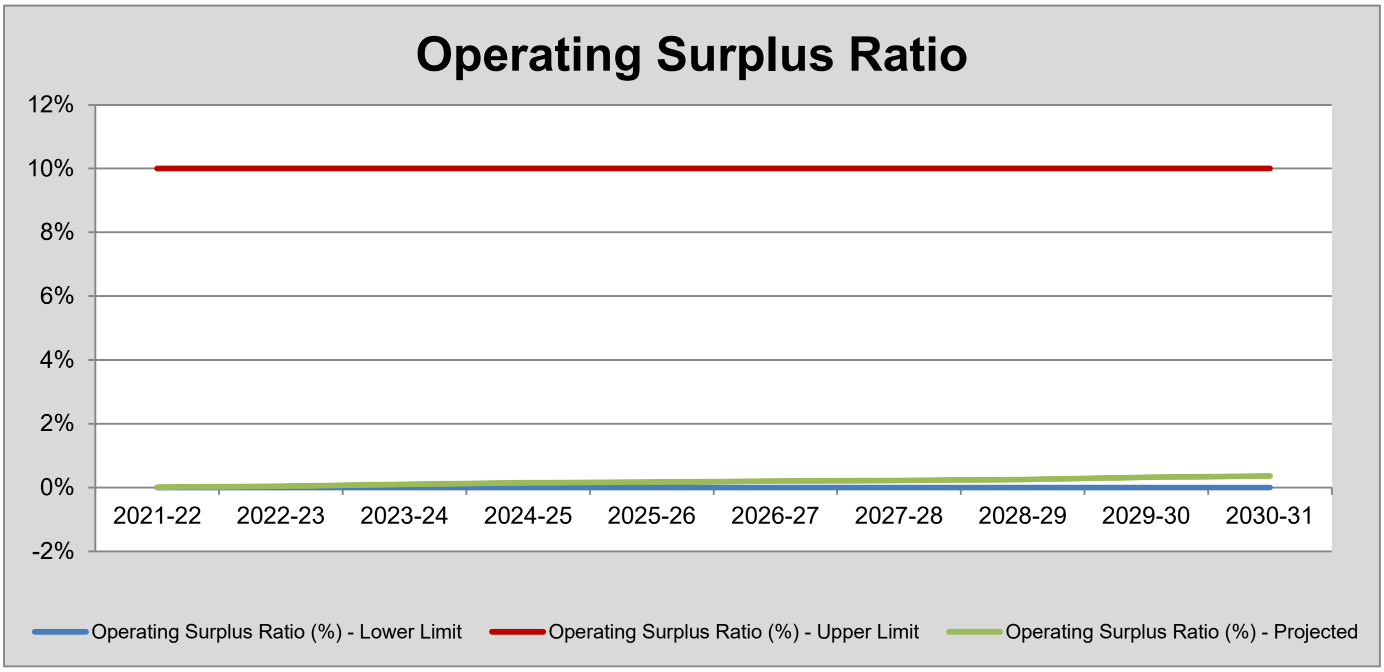
5.5 Key Performance Information

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 that 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.



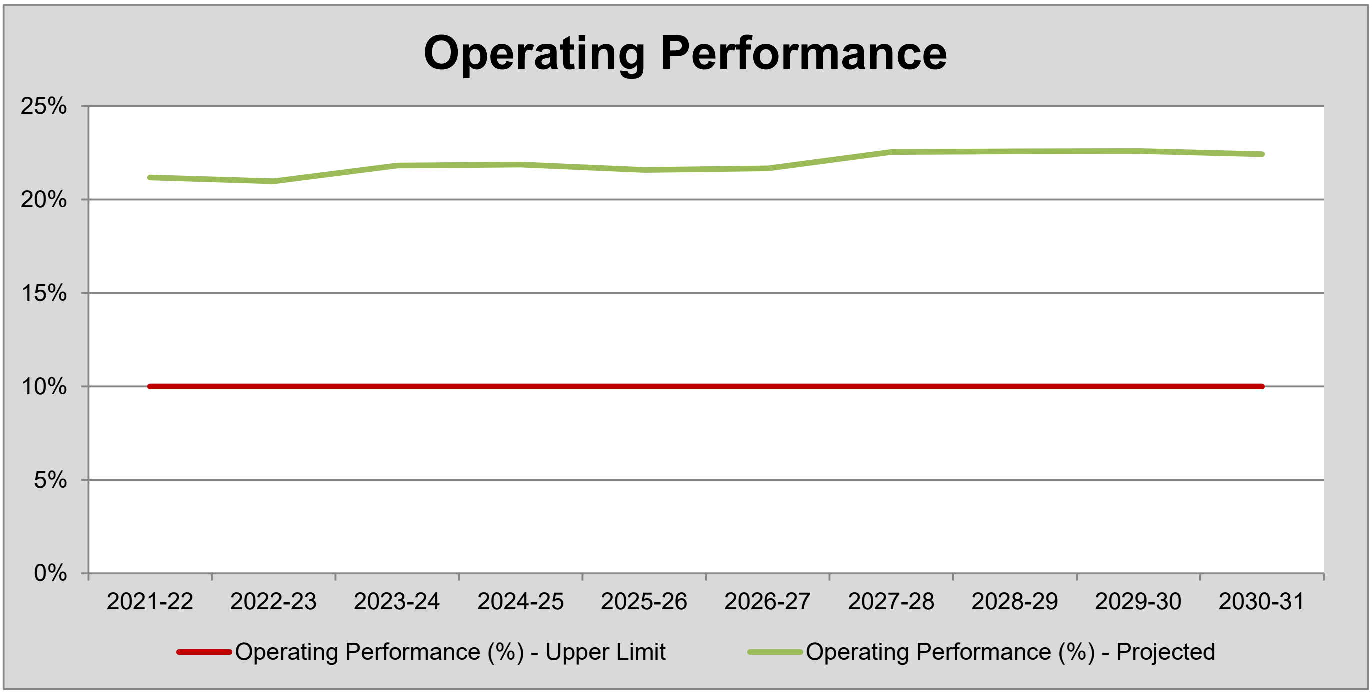
The operating surplus ratio is a measure of how recurrent revenues cover recurrent expenditure (including interest expense and depreciation). The following graph outlines the forecast operating surplus ratio over the ten years in the financial forecast:



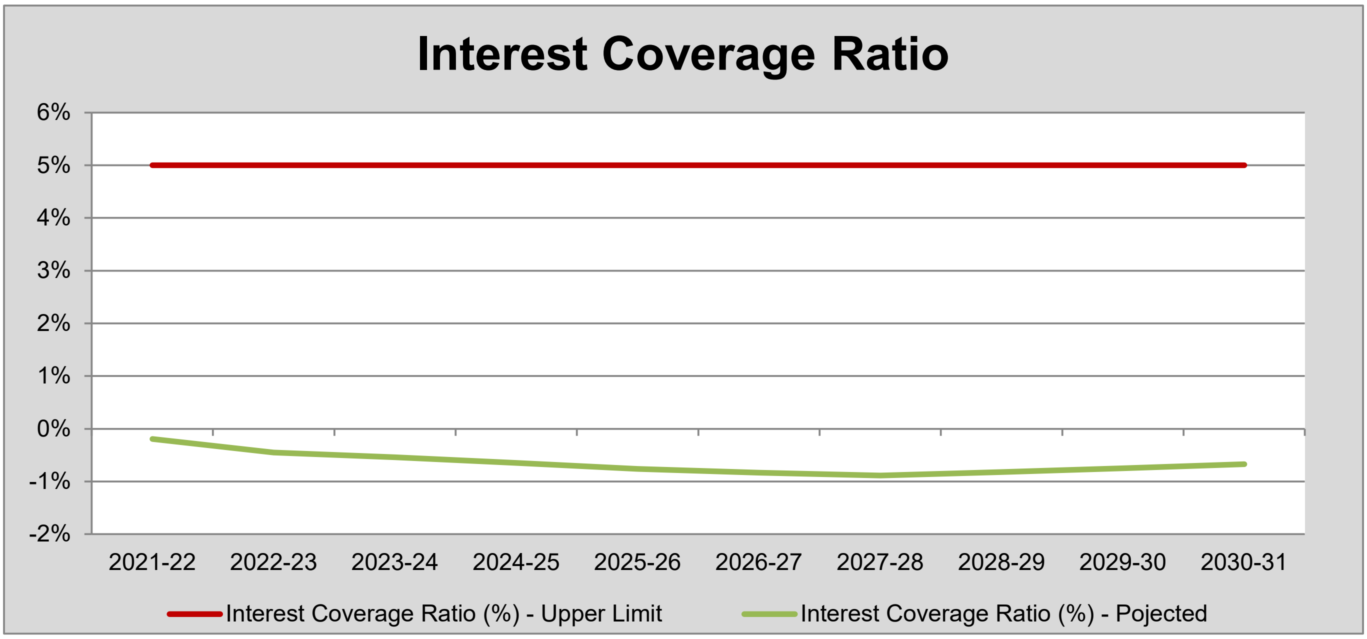
Council's operating performance can also be measured on a cash basis (as opposed to the accrual basis above). Cash from operations comprises:

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

Council's monthly cash flow cycle during the financial year is not consistent due to the quarterly rating cycle 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 focused on operating cash flows over investing or financing cash flows. The rating cycle continues to create monthly volatility in the ratio due to the timing of rates revenue receipts compared to timing of expenses.



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, and the liability associated with leased assets. Council's largest liability in dollar terms is its borrowings.

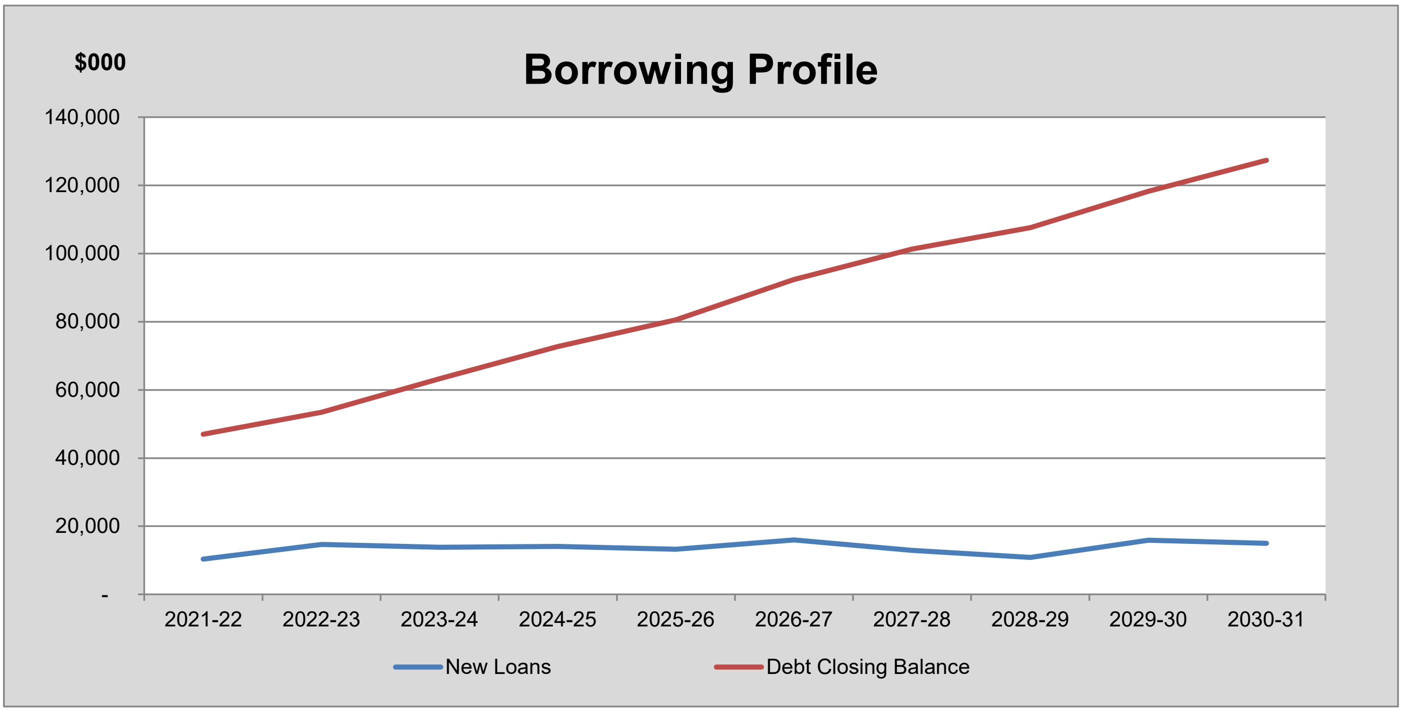
Council borrows from Queensland Treasury Corporation (QTC) for capital works in one or more of the following three areas:

- 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 twenty years. Council's debt consists of fixed rate loans following the debt restructure initiated by QTC in April 2016 and is recorded in the financial management system at book value.

Council makes annual debt repayments to support the policy position of reducing the community's debt when cash balances are sufficient to fund works without increasing liabilities, while reducing the interest expense associated with the borrowings. As debt was borrowed when interest rates were higher, and Council's conservative policy position of investing to protect capital, currently the cost of debt is higher than the returns on investments.

The following chart illustrates Council's current risk appetite for 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 forecasting 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 Portfolio Prioritisation Administrative Directive– 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
- only borrowing for intergenerational investment – Council has borrowings forecast in the life of the Strategy. 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.

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 provide a community benefit.

6.2.3 Employee Benefits Policy Statement

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 and will be restricted to funding works relating to risk management, asset management or intergenerational projects
- 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 the 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.

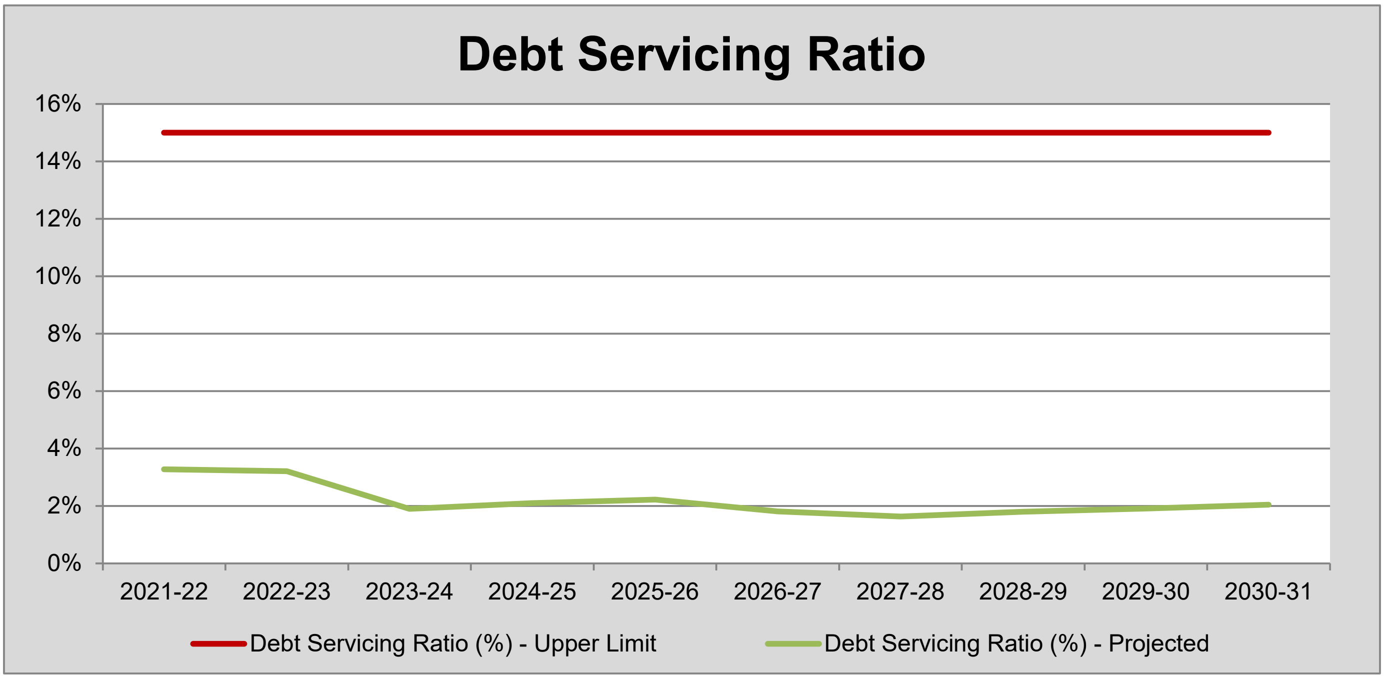
Opportunity	Likelihood	Consequence	Rating
Borrowing when interest rates are historically low for approved and identified intergenerational projects	Almost Certain	Low	**High**
Technology improvements, economies of scale or efficiencies reduce the costs associated with closed landfill rehabilitation	Possible	Medium	**Medium**

Risk	Likelihood	Consequence	Rating
Asset management planning identifies a growing infrastructure backlog that requires debt funding	Likely	Medium	**High**
Contingent liabilities not fully covered by insurance	Possible	Low	**Medium**
Interest rates increase significantly over the ten years and future loans cost significantly more	Unlikely	Medium	**Medium**
Council's net debt position deteriorates as cash balances reduce quicker than debt balances	Possible	Low	**Medium**
Reduced ability to repay borrowing costs	Unlikely	Low	**Low**

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

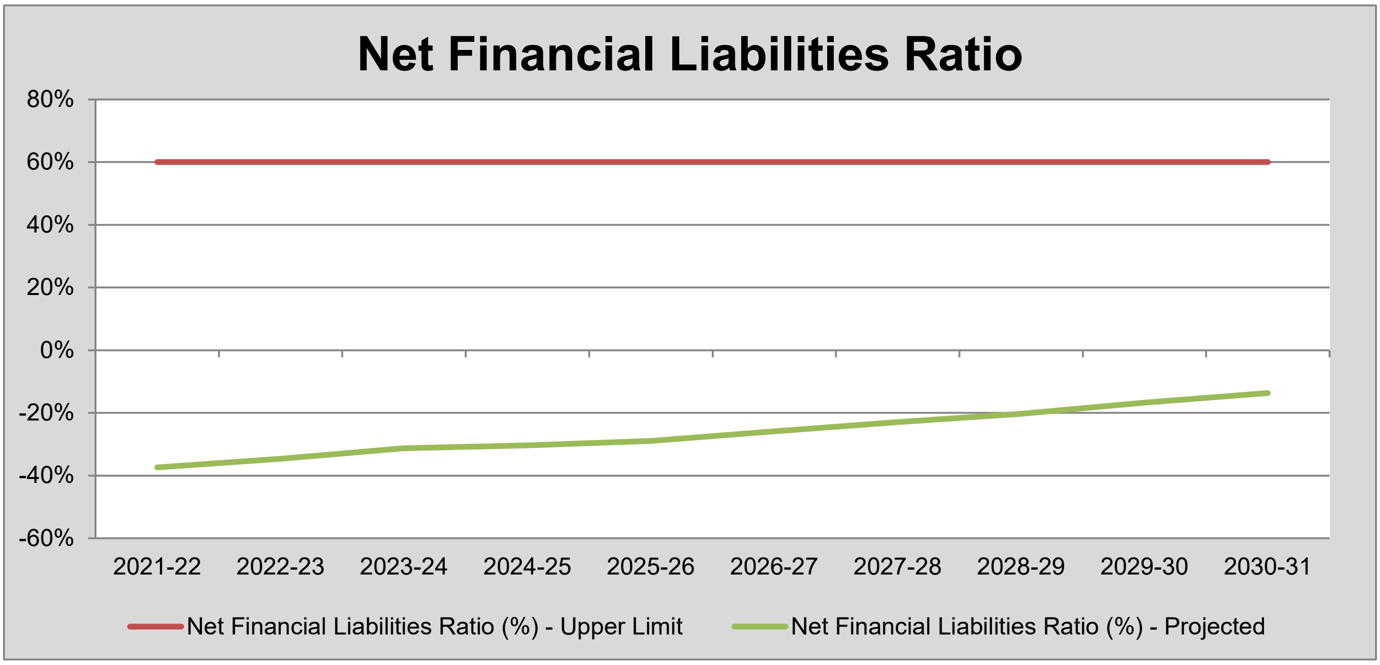
- continue to integrate Council's ten year capital program with the long-term financial plan
- investigate capitalizing interest expense for qualifying assets
- continue to partner with QTC in undertaking credit/sustainability reviews or similar where practicable to ensure current budgeting, forecasting and financing assumptions and parameters are reasonable.

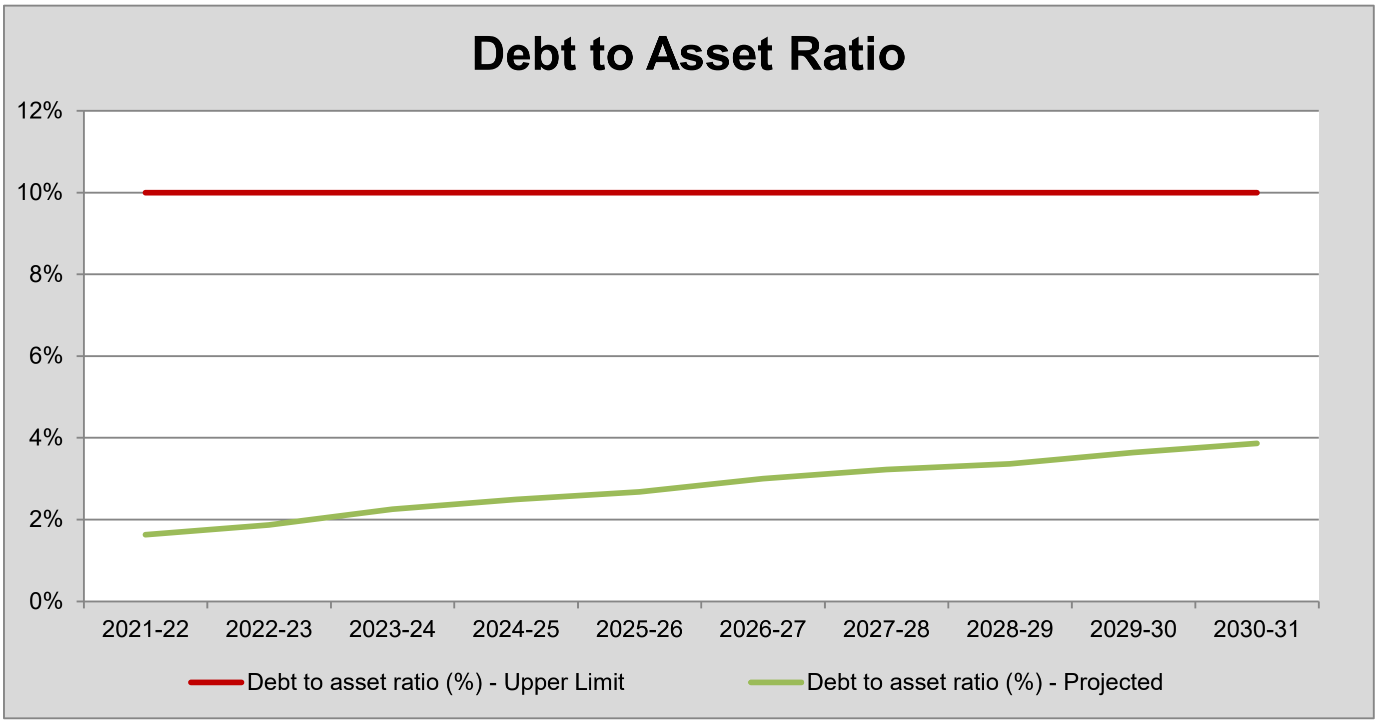
6.5 Key Performance Information



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 minus 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.

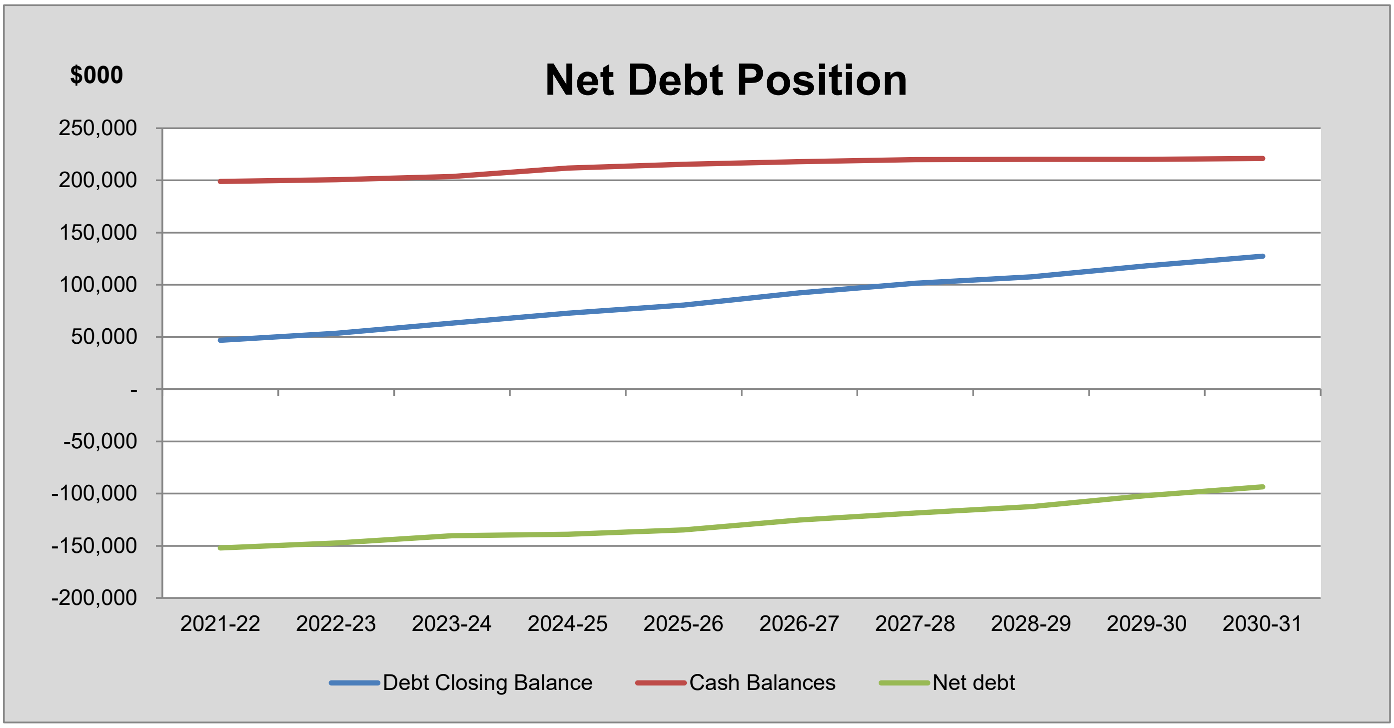




Council's asset base is in the order of $2.88 billion and the prudent application of debt is being used to fund intergenerational assets that meet the criteria set out in Councils debt policy.

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 considered 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 for review, 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. These reserves are reconciled and reported on a monthly basis.

7.2 Equity Management Policy Statement

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 2021-2031 Financial Strategy has been updated as part of the 2021-22 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

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, senior and executive managers) meet 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. Through its monthly financial reports, formal budget reviews and associated variance analysis, financial workshops and Audit Committee, Council also continuously:

- challenges assumptions within the Strategy
- reviews the financial stability and measures of financial 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 corporate overhead allocation. 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 financially sustainable. Through better costing, corporate overhead allocations, 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:

- *Council will comply with the Act's and Regulation's requirements in relation to the application of the competitive neutrality principle to significant business activities, and the code of competitive conduct where applicable.*
- *The adoption of a business activity recognises the activity is conducted, or has the potential to be conducted, in competition with the private sector giving greater transparency to the community over the activity and clarity of the revenue stream.*
- *The determination of the standard and quality of each business activity required is 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.*

Where possible, Council will seek to supplement revenue through application for external grants and subsidies. Every opportunity will be taken to maximise revenue in support of capital and operational spending. External funding, however, must be strategically targeted and in alignment with community and corporate objectives.

9.2 Policies associated with Commercial Businesses

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

- Application of Dividends and Tax Equivalent Payments
- Dividend Policy – Significant and Prescribed Business Activities
- Competitive Neutrality Complaint Process
- Community Service Obligation

Industry specific policies include but are not limited to:

- Trade Waste
- Waste Management and Resource Recovery

9.3 Redland Investment Corporation and its Subsidiaries

Council continues to look for ways to minimise increases to rates and charges as well as strengthening its financial position. 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.

RIC 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. 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*.

9.4 Existing Commercial Opportunities

Council currently has two commercial business units, namely:

- City Water
- City Waste

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 consider 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.

9.5 Redlands Priority Development Areas

Priority Development Areas (PDA) are products of the *Economic Development Act 2012* which facilitates economic development across Queensland. Both Cleveland (Toondah Harbour) and Redland Bay (Weinam Creek) were designated Priority Development Areas by the Queensland Government with the desired outcome to promote transport, tourism and businesses within Redland City.

9.6 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
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**
Alternative revenue streams for Council that reduce price increases on residents through general rates	Possible	Low	**Medium**
A commitment to reducing red tape and ensuring NBN access would make the city an attractive place to do business	Possible	Medium	**Medium**
Reduction of maintenance costs on idle assets-current surplus land has a maintenance cost but does not generate revenue	Likely	Low	**Medium**
Council's advocacy and ongoing education on recycle, reuse and reduce waste will provide long-term economic, social and environmental benefits for Council. The transition to the circular economy will generate jobs, increase the robustness of the economy, increase accessibility to goods, maximise the value of resources	Likely	Low	**Medium**
Redland Investment Corporation (RIC) declare future dividends payable to Council	Unlikely	Low	**Low**

Risk	Likelihood	Consequence	Rating
Reputation Risk - Council selling land that the community would like to retain	Unlikely	Low	Medium
Loss of commercial opportunities due to length of time for planning approvals to eventuate.	Possible	Low	Medium
Current forecasts of gain on sale of developed land may not eventuate due to changes in market conditions	Possible	Low	Medium

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 City Water and City Waste
- Separate operating and capital funding statements will continue to be produced for City Water and City Waste, to track performance against forecasts and budgets
- Council's Chief Executive Officer is invited to observe the Redland Investment Corporation Board meetings. Additionally Councillors and the RIC Board meet on regular occasions
- RIC will submit quarterly reports to Redland City Council General Meetings to track performance against expectations.

10. Appendices

10.1 Long-Term Financial Forecast Statements

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF COMPREHENSIVE INCOME	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Recurrent revenue										
Rates charges	111,574	114,785	118,161	121,660	124,989	129,344	134,725	140,344	145,968	151,607
Levies and utility charges	170,378	176,334	182,634	189,351	196,381	204,163	212,653	221,465	230,588	239,960
Less: Pensioner remissions and rebates	(3,486)	(3,581)	(3,682)	(3,787)	(3,888)	(4,019)	(4,177)	(4,342)	(4,508)	(4,674)
Fees	15,337	16,053	16,850	17,820	18,494	19,231	19,997	20,794	21,623	22,485
Rental income	1,067	1,087	1,109	1,133	1,159	1,188	1,218	1,248	1,280	1,312
Interest received	2,037	2,628	3,211	3,820	4,473	5,095	5,769	5,868	5,865	5,933
Sales revenue	3,682	3,750	3,825	3,908	4,000	4,100	4,202	4,307	4,415	4,525
Other income	469	478	488	498	510	523	536	549	563	577
Grants, subsidies and contributions	9,496	16,619	20,134	16,257	17,371	17,593	17,756	17,513	17,411	18,060
Total recurrent revenue	**310,554**	**328,153**	**342,729**	**350,661**	**363,488**	**377,217**	**392,679**	**407,748**	**423,205**	**439,785**
Capital revenue										
Grants, subsidies and contributions	22,133	21,624	25,638	36,493	25,544	22,080	21,553	21,038	19,033	18,925
Non-cash contributions	2,461	6,282	5,713	12,339	20,358	26,347	24,908	14,181	10,313	8,951
Total capital revenue	**24,594**	**27,906**	**31,351**	**48,832**	**45,902**	**48,427**	**46,460**	**35,219**	**29,346**	**27,875**
TOTAL INCOME	**335,148**	**356,059**	**374,081**	**399,493**	**409,390**	**425,644**	**439,139**	**442,967**	**452,551**	**467,661**
Recurrent expenses										
Employee benefits	97,172	99,503	101,891	104,336	106,840	109,405	112,030	114,719	117,472	120,292
Materials and services	145,459	158,878	167,046	169,315	175,916	184,065	192,871	201,677	210,864	221,997
Finance costs	2,007	1,709	1,911	2,082	2,243	2,477	2,833	3,081	3,262	3,563
Depreciation and amortisation	67,563	69,661	73,306	76,228	79,727	82,434	86,049	89,275	92,362	94,534
Other expenditure	522	534	548	562	576	593	613	633	654	675
Net internal costs	(2,213)	(2,265)	(2,321)	(2,381)	(2,441)	(2,514)	(2,598)	(2,685)	(2,772)	(2,860)
Total recurrent expenses	**310,511**	**328,019**	**342,380**	**350,143**	**362,861**	**376,460**	**391,799**	**406,701**	**421,843**	**438,200**
Capital expenses										
(Gain) / loss on disposal of non-current assets	289	448	111	692	186	375	614	(0)	549	375
Total capital expenses	**289**	**448**	**111**	**692**	**186**	**375**	**614**	**(0)**	**549**	**375**
TOTAL EXPENSES	**310,799**	**328,467**	**342,491**	**350,834**	**363,047**	**376,835**	**392,412**	**406,700**	**422,392**	**438,575**
NET RESULT	**24,349**	**27,591**	**31,589**	**48,659**	**46,343**	**48,808**	**46,727**	**36,267**	**30,159**	**29,086**
Other comprehensive income/(loss)										
Items that will not be reclassified to a net result										
Revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME	**24,349**	**27,591**	**31,589**	**48,659**	**46,343**	**48,808**	**46,727**	**36,267**	**30,159**	**29,086**

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF FINANCIAL POSITION										
	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
CURRENT ASSETS										
Cash and cash equivalents	198,990	200,530	203,720	211,717	215,390	217,727	219,775	219,827	219,863	220,509
Trade and other receivables	42,672	44,924	46,700	47,988	49,744	51,609	53,515	55,748	57,915	60,222
Inventories	916	916	916	916	916	916	916	916	916	916
Other current assets	1,810	1,810	1,810	1,810	1,810	1,810	1,810	1,810	1,810	1,810
Total current assets	**244,389**	**248,180**	**253,146**	**262,430**	**267,860**	**272,062**	**276,016**	**278,300**	**280,504**	**283,457**
NON-CURRENT ASSETS										
Investment property	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
Property, plant and equipment	2,619,909	2,650,777	2,689,836	2,739,392	2,787,479	2,843,594	2,897,987	2,941,288	2,983,116	3,022,729
Intangible assets	1,135	1,006	869	1,084	1,291	1,654	2,119	2,567	2,999	3,049
Right-of-use assets	4,723	3,870	2,917	2,147	1,567	1,414	1,260	1,107	954	841
Other financial assets	73	73	73	73	73	73	73	73	73	73
Investment in other entities	12,657	12,657	12,657	12,657	12,657	12,657	12,657	12,657	12,657	12,657
Total non-current assets	**2,639,722**	**2,669,608**	**2,707,577**	**2,756,578**	**2,804,292**	**2,860,616**	**2,915,321**	**2,958,917**	**3,001,024**	**3,040,574**
TOTAL ASSETS	**2,884,111**	**2,917,788**	**2,960,722**	**3,019,008**	**3,072,152**	**3,132,678**	**3,191,337**	**3,237,218**	**3,281,528**	**3,324,031**
CURRENT LIABILITIES										
Trade and other payables	37,171	40,067	42,201	42,720	44,468	46,604	48,732	51,108	53,470	56,433
Borrowings - current	8,326	4,003	4,691	5,446	4,183	3,952	4,631	5,241	5,832	6,589
Lease liability - current	1,294	1,128	917	704	161	164	168	172	130	132
Provisions - current	15,270	15,161	15,536	18,742	19,206	16,674	17,086	17,487	17,918	18,349
Other current liabilities	1,911	1,940	1,973	1,961	2,049	2,089	2,131	2,172	2,217	2,084
Total current liabilities	**63,972**	**62,299**	**65,318**	**69,573**	**70,066**	**69,484**	**72,746**	**76,180**	**79,566**	**83,588**
NON-CURRENT LIABILITIES										
Borrowings - non-current	38,659	49,436	58,623	67,301	76,384	88,423	96,711	102,360	112,419	120,831
Lease liability - non-current	4,377	3,416	2,499	1,844	1,683	1,518	1,350	1,180	1,050	1,050
Provisions - non-current	21,539	19,482	19,538	16,889	14,274	14,698	15,249	15,950	16,785	17,769
Total non-current liabilities	**64,576**	**72,334**	**80,661**	**86,033**	**92,340**	**104,639**	**113,309**	**119,490**	**130,254**	**139,650**
TOTAL LIABILITIES	**128,547**	**134,633**	**145,978**	**155,606**	**162,406**	**174,123**	**186,056**	**195,669**	**209,820**	**223,238**
NET COMMUNITY ASSETS	**2,755,563**	**2,783,155**	**2,814,744**	**2,863,403**	**2,909,746**	**2,958,554**	**3,005,282**	**3,041,548**	**3,071,707**	**3,100,793**
COMMUNITY EQUITY										
Asset revaluation surplus	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840	1,035,840
Retained surplus	1,619,513	1,652,528	1,689,540	1,743,622	1,795,388	1,849,620	1,901,770	1,943,459	1,979,042	2,013,550
Constrained cash reserves	100,210	94,787	89,364	83,941	78,518	73,095	67,672	62,249	56,826	51,403
TOTAL COMMUNITY EQUITY	**2,755,563**	**2,783,155**	**2,814,744**	**2,863,403**	**2,909,746**	**2,958,554**	**3,005,282**	**3,041,548**	**3,071,707**	**3,100,793**

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF CASH FLOWS	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
CASH FLOWS FROM OPERATING ACTIVITIES										
Receipts from customers	297,941	306,404	316,876	327,675	338,796	351,423	365,953	380,762	396,362	412,132
Payments to suppliers and employees	(246,606)	(256,390)	(265,057)	(271,205)	(281,736)	(291,959)	(300,272)	(311,318)	(323,049)	(336,191)
	51,334	**50,015**	**51,819**	**56,470**	**57,060**	**59,464**	**65,681**	**69,444**	**73,313**	**75,942**
Interest received	2,037	2,628	3,211	3,820	4,473	5,095	5,769	5,868	5,865	5,933
Rental income	1,067	1,085	1,106	1,130	1,156	1,185	1,215	1,244	1,276	1,308
Non-capital grants and contributions	14,109	15,807	19,762	16,728	17,269	17,597	17,775	17,573	17,459	18,021
Borrowing costs	(1,763)	(1,156)	(1,366)	(1,546)	(1,710)	(1,944)	(2,290)	(2,526)	(2,697)	(2,987)
Right-of-use assets interest expense	(131)	(106)	(87)	(69)	(53)	(41)	(38)	(34)	(30)	(27)
Net cash inflow/(outflow) from operating activities	**66,654**	**68,272**	**74,445**	**76,533**	**78,195**	**81,356**	**88,113**	**91,569**	**95,185**	**98,190**
CASH FLOWS FROM INVESTING ACTIVITIES										
Payments for property, plant and equipment	(70,498)	(95,516)	(107,910)	(115,050)	(109,048)	(113,667)	(117,089)	(119,919)	(125,369)	(126,898)
Payments for intangible assets	-	(253)	(257)	(262)	(268)	(550)	(564)	(578)	(592)	-
Proceeds from sale of property, plant and equipment	1,222	1,205	1,541	961	1,467	1,277	1,039	1,653	1,104	1,277
Capital grants, subsidies and contributions	22,133	21,624	25,638	36,493	25,544	22,080	21,553	21,038	19,033	18,925
Other cash flows from investing activities	3,500	882	986	805	620	194	195	196	197	113
Net cash inflow/(outflow) from investing activities	**(43,642)**	**(72,059)**	**(80,002)**	**(77,053)**	**(81,685)**	**(90,667)**	**(94,866)**	**(97,610)**	**(105,628)**	**(106,584)**
CASH FLOWS FROM FINANCING ACTIVITIES										
Proceeds from borrowings	10,324	14,700	13,877	14,123	13,265	15,991	12,917	10,890	15,890	15,000
Repayment of borrowings	(7,243)	(8,245)	(4,002)	(4,690)	(5,445)	(4,182)	(3,951)	(4,630)	(5,240)	(5,831)
Right-of-use lease payments	(1,145)	(1,128)	(1,128)	(917)	(656)	(161)	(164)	(168)	(171)	(130)
Net cash inflow/(outflow) from financing activities	**1,936**	**5,326**	**8,747**	**8,516**	**7,164**	**11,648**	**8,801**	**6,092**	**10,479**	**9,039**
Net increase/(decrease) in cash held	**24,947**	**1,540**	**3,190**	**7,997**	**3,673**	**2,338**	**2,048**	**52**	**36**	**646**
Cash and cash equivalents at the beginning of the year	174,043	198,990	200,530	203,720	211,717	215,390	217,727	219,775	219,827	219,863
Cash and cash equivalents at the end of the year	**198,990**	**200,530**	**203,720**	**211,717**	**215,390**	**217,727**	**219,775**	**219,827**	**219,863**	**220,509**

LONG-TERM FINANCIAL FORECAST - PROJECTED OPERATING STATEMENT	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Revenue										
Rates charges	111,574	114,785	118,161	121,660	124,989	129,344	134,725	140,344	145,968	151,607
Levies and utility charges	170,378	176,334	182,634	189,351	196,381	204,163	212,653	221,465	230,588	239,960
Less: Pensioner remissions and rebates	(3,486)	(3,581)	(3,682)	(3,787)	(3,888)	(4,019)	(4,177)	(4,342)	(4,508)	(4,674)
Fees	15,337	16,053	16,850	17,820	18,494	19,231	19,997	20,794	21,623	22,485
Operating grants and subsidies	8,729	15,830	19,322	15,421	16,512	16,704	16,830	16,549	16,408	17,018
Operating contributions and donations	767	789	812	836	859	889	926	965	1,003	1,042
Interest external	2,037	2,628	3,211	3,820	4,473	5,095	5,769	5,868	5,865	5,933
Other revenue	5,218	5,315	5,422	5,539	5,669	5,811	5,956	6,105	6,257	6,414
Total revenue	**310,554**	**328,153**	**342,729**	**350,661**	**363,488**	**377,217**	**392,679**	**407,748**	**423,205**	**439,785**
Expenses										
Employee benefits	97,172	99,503	101,891	104,336	106,840	109,405	112,030	114,719	117,472	120,292
Materials and services	145,459	158,878	167,046	169,315	175,916	184,065	192,871	201,677	210,864	221,997
Finance costs other	437	447	457	468	479	492	506	520	535	550
Other expenditure	522	534	548	562	576	593	613	633	654	675
Net internal costs	(2,213)	(2,265)	(2,321)	(2,381)	(2,441)	(2,514)	(2,598)	(2,685)	(2,772)	(2,860)
Total expenses	**241,378**	**257,097**	**267,620**	**272,300**	**281,371**	**292,041**	**303,422**	**314,865**	**326,753**	**340,653**
Earnings before interest, tax and depreciation	**69,176**	**71,055**	**75,109**	**78,361**	**82,118**	**85,176**	**89,257**	**92,883**	**96,451**	**99,133**
Interest expense - external	1,569	1,262	1,454	1,614	1,763	1,985	2,327	2,560	2,728	3,013
Depreciation and amortisation	67,563	69,661	73,306	76,228	79,727	82,434	86,049	89,275	92,362	94,534
Operating Surplus/(Deficit)	**43**	**133**	**349**	**518**	**627**	**757**	**880**	**1,047**	**1,362**	**1,586**

LONG-TERM FINANCIAL FORECAST - PROJECTED CAPITAL FUNDING STATEMENT	Year 1 2021-22 $000	Year 2 2022-23 $000	Year 3 2023-24 $000	Year 4 2024-25 $000	Year 5 2025-26 $000	Year 6 2026-27 $000	Year 7 2027-28 $000	Year 8 2028-29 $000	Year 9 2029-30 $000	Year 10 2030-31 $000
Proposed sources of capital funding										
Capital contributions and donations	14,257	19,857	24,639	35,619	24,670	21,206	20,678	20,164	18,158	18,050
Capital grants and subsidies	7,876	1,767	999	874	874	874	874	874	874	874
Proceeds on disposal of non-current assets	1,222	1,205	1,541	961	1,467	1,277	1,039	1,653	1,104	1,277
Capital transfers (to) from reserves	3,541	5,423	5,423	5,423	5,423	5,423	5,423	5,423	5,423	5,423
Non-cash contributions	2,461	6,282	5,713	12,339	20,358	26,347	24,908	14,181	10,313	8,951
New loans	10,324	14,700	13,877	14,123	13,265	15,991	12,917	10,890	15,890	15,000
Funding from general revenue	41,990	62,193	66,819	64,130	69,980	74,332	80,833	86,286	89,920	92,276
Total sources of capital funding	**81,670**	**111,427**	**119,011**	**133,469**	**136,036**	**145,449**	**146,672**	**139,471**	**141,682**	**141,852**
Proposed application of capital funds										
Contributed assets	2,461	6,282	5,713	12,339	20,358	26,347	24,908	14,181	10,313	8,951
Capitalised goods and services	62,822	88,108	99,514	106,087	100,571	105,080	108,240	110,857	115,884	116,746
Capitalised employee costs	7,676	7,662	8,653	9,225	8,745	9,137	9,412	9,640	10,077	10,152
Loan redemption	8,712	9,375	5,130	5,818	6,362	4,885	4,112	4,794	5,408	6,003
Total application of capital funds	**81,670**	**111,427**	**119,011**	**133,469**	**136,036**	**145,449**	**146,672**	**139,471**	**141,682**	**141,852**
Other budgeted items										
Transfers to constrained operating reserves	(22,274)	(22,830)	(23,401)	(23,986)	(24,586)	(25,200)	(25,830)	(26,476)	(27,138)	(27,817)
Transfers from constrained operating reserves	17,400	22,830	23,401	23,986	24,586	25,200	25,830	26,476	27,138	27,817
Written down value (WDV) of assets disposed	1,511	1,205	1,541	961	1,467	1,277	1,039	1,653	1,104	1,277

10.2 Glossary – Key Performance Indicators

Definition of Ratios	
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
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 Infrastructure Assets (Renewals) ——— Depreciation Expenditure on Infrastructure Assets
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
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 balance includes cash on hand, cash at bank and other short term investments*	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]
Longer Term Financial Stability - 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 Debt** ——— Total Assets
Operating Performance: *This ratio provides an indication of Council's cash flow capabilities*	Net Cash from Operations + Interest Revenue and Expense ——— Cash Operating Revenue + Interest Revenue
Interest Coverage Ratio: *This ratio demonstrates the extent to which operating revenues are being used to meet the financing charges*	Net Interest Expense on Debt Service *** ——— Total Operating Revenue

* These targets are set to be achieved on average over the long-term.
** Debt includes lease liabilities.
*** Interest expense includes interest on leases.
^ Loan redemption includes lease redemption

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