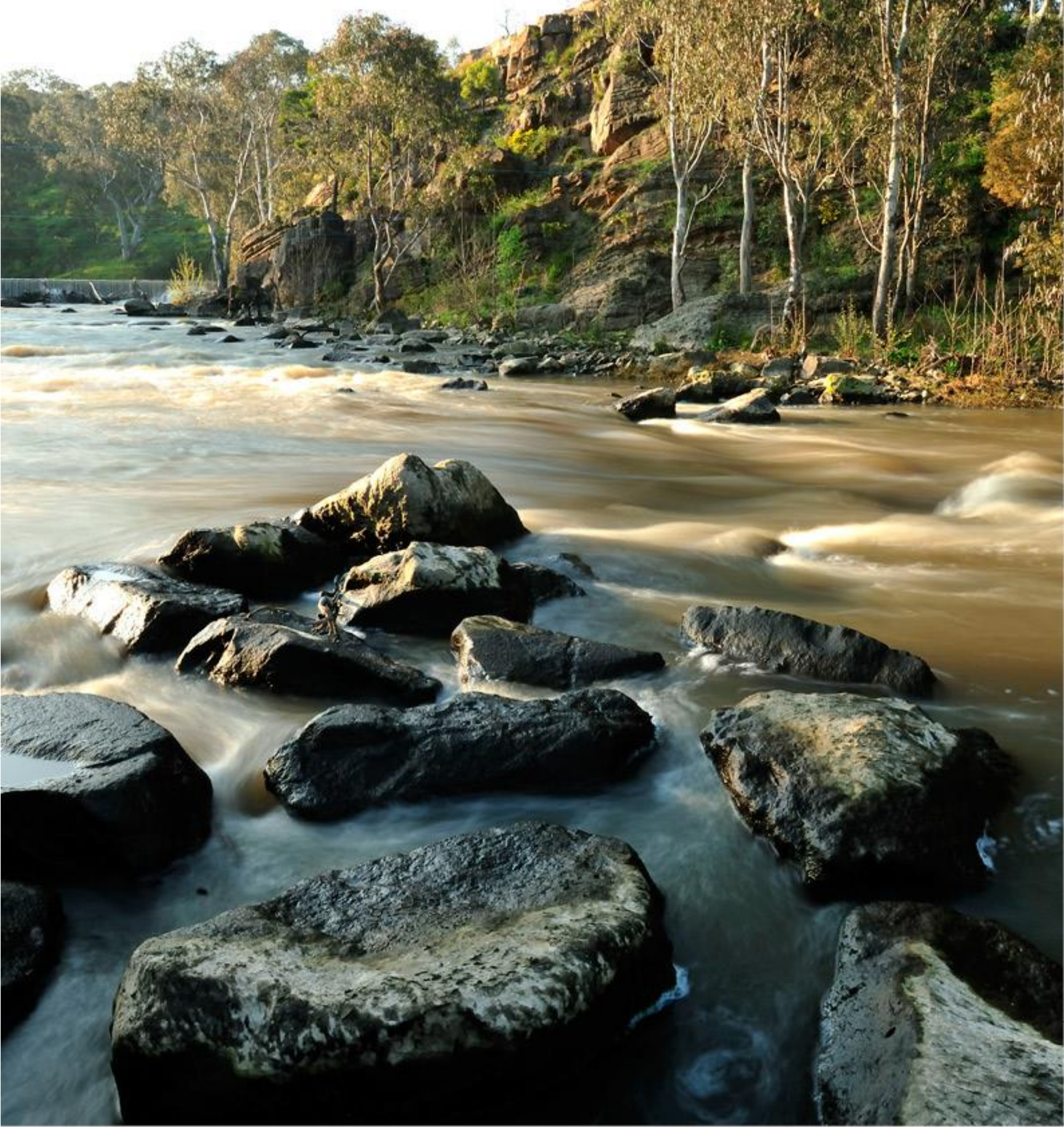
YARRA CITY COUNCIL

CITY OF YaRRA

A GUIDE TO YARRA'S BUDGET 2018-2019



INTRODUCTION

As a council, we deliver a wide range of services that respond to different community needs. These include council programs as well as commonwealth and state government programs. They are delivered in partnership with the local community, other levels of government, and other agencies.

We are also responsible for over $1.7 billion dollars of community assets and infrastructure, which requires ongoing maintenance, renewal, and replacement.

We have a Council Plan that sets our future direction for the next 4 years. The Strategic Resource Plan (SRP) – which forms part of the Council Plan - is essentially a 4 year budget that demonstrates how we will resource our Council Plan from a financial and human resources perspective. The SRP is updated annually, and is essentially a 4 year snapshot of Council's Long Term Financial Strategy (LTFS).

The annual budget outlines the financial resources required to deliver our services and programs to the community. It sets out the forecast financial performance and position, including the funding levels.

The purpose of this guide is to:

- Provide further supporting information on our proposed budget.
- Give further context in relation to our financial position.
- To explain the financial information in the budget in an easy to read format.

HIGHLIGHTS OF THE 2018/19 BUDGET

Our proposed budget 2018/19 continues to build a solid foundation to make sure we have a strong and sustainable financial position for coming years.

We are making sure we get the basics right, while also providing the wide range of services and programs that our growing and diverse community needs and values.

We have prepared our proposed budget 2018/19 after holding three early engagement public feedback sessions and receiving more than 150 written submissions from our community. This has helped us understand what our community's priorities are.

There will also be a 28 day community consultation period now that the budget has been adopted in principle. During this time there will be a number of opportunities for our community to engage with Councillors and officers at engagement sessions across Yarra.

PROPOSED BUDGET AT A GLANCE

- $188m total operating revenue
- $177m total operating expenditure
- $26m for capital works projects and other new initiatives

- Average rates to increase by the 2018/19 rate cap – 2.25%
- 2.25% increase in the rate rebate for pensioners (now $182.50)

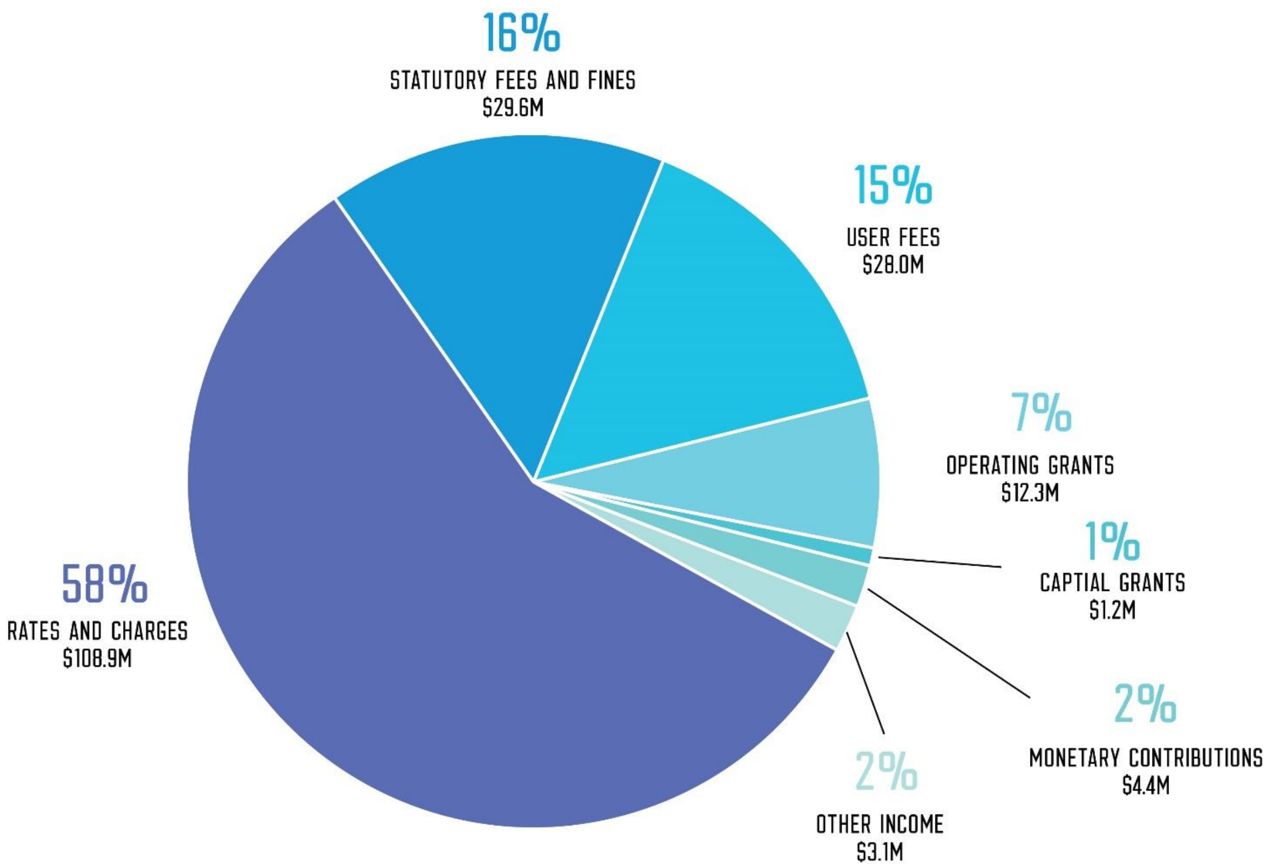
WHERE OUR MONEY COMES FROM

We get our income from a number of sources, including:

- Rates
- Grant funding from federal and state government
- Parking fees and fines
- Charging user fees for some of our services
- Contributions from developers for open space works
- Other general income

You can view these sources of income through our Income Statement.

SOURCES OF INCOME FOR 2018/19



WHERE OUR MONEY GOES

We use our money to deliver services to our community, as well as on the maintenance, renewal, and upgrade of the community's infrastructure assets.

We spend our funding on:

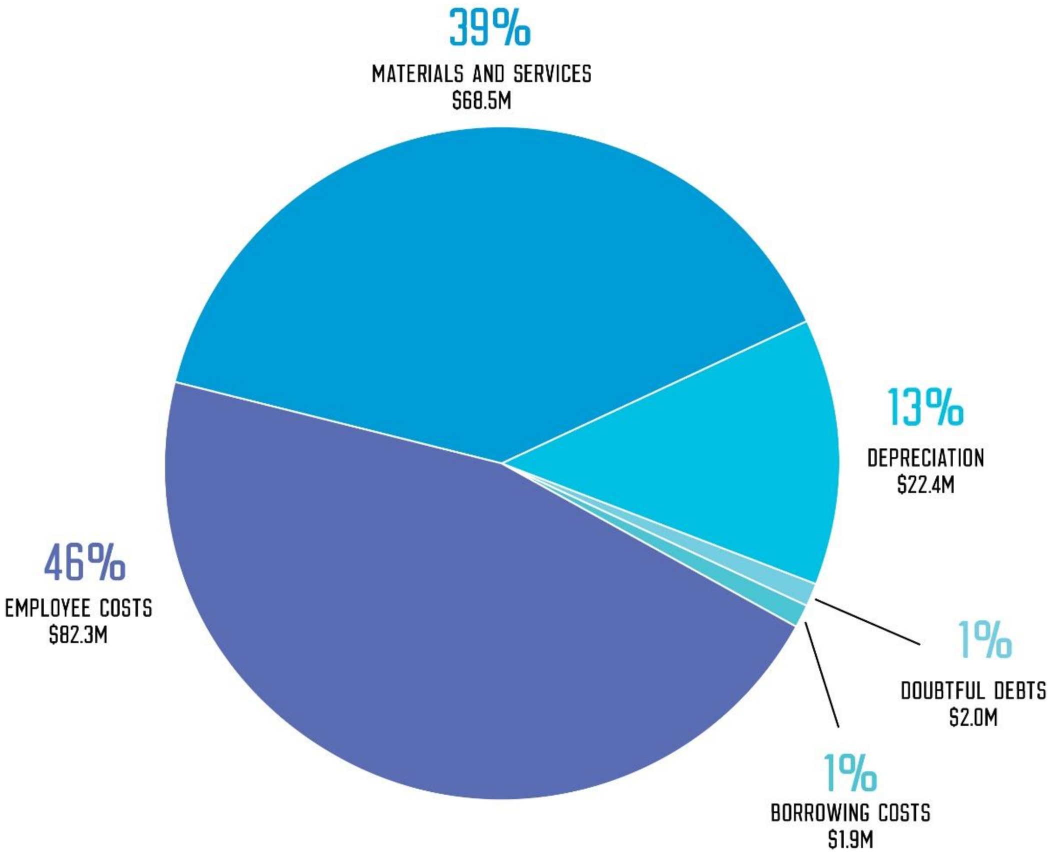
a) Paying our employees
b) Materials and services
c) Bad and doubtful debts (non cash)
d) Depreciation and amortization (non cash)
e) Borrowing costs
f) Other general expenses
g) Capital works

- a) through to f) of the expenditure above are captured in the Income Statement.
- g) Capital Works are captured in the Capital Works Statement. The financial statements are explained in more detail further on in this guide.

EXPENSES FOR 2018/19

The chart below shows our expenditure for Yarra from the 2018/19 budget.

The chart highlights that 98% of council operating expenditure is consumed by staff, contract payments and depreciation. This is consistent with Yarra's crucial role in the delivery of local services and maintenance of its infrastructure.



CAPITAL WORKS

We are responsible for over $1.7 billion dollars of assets and infrastructure, which requires ongoing maintenance, renewal, and replacement. These works are delivered through our Capital Works Program.

HOW WE PLAN TO SPEND OUR $25.7M CAPITAL WORKS BUDGET

The vast majority of the funds ($25.5 million) will be used to maintain or upgrade ageing assets such as roads, footpaths, drains, buildings and parkland.

A comparatively small amount of money ($230k) is available this year to fund new capital works projects. The funding on new assets this year will be mainly spent on stage 2 of the Wellington Street separated bike lanes project.

HOW WE KNOW WHAT TO PRIORITISE

Asset Management Registers
Our Asset Management Registers track the condition of our existing assets and lets us know when they need to be repaired or replaced.

We have a responsibility to ensure that vital community assets such as footpaths, roads, drains and laneways remain safe to use and meet the evolving needs of our community.

Council Plan and Annual Budget
Informed by community feedback and suggestions, our Council Plan outlines the additional capital works projects that we plan to complete from 2017–21, for example: a new pocket park in Abbotsford.

Most special projects in our annual budget come from the Council Plan (or other formally adopted strategies or master plans) but we may consider additional projects if there is an urgent need and funds are available.

Special funding
Some capital works funding comes from Federal and State Government agencies, and this money can only be used for specific projects.

Similarly, when we receive open space contributions from developers, this money can only be used in accordance with our Public Open Space policy.

OUR DEBTS

As at the end of last financial year (2016/17), we have a debt of $46 million.

We have two loans that account for this debt:

Loan amount	**Purpose**	**Type of loan**	**Financial year loan was taken up**
$13.5 million	To fund the construction of the state of the art Bargoonga Nganjin, North Fitzroy Library.	10 year principal and interest loan.	2016/17
$32.5 million	To fund our investment in the property at 345 Bridge Road, Richmond. To service the Defined Benefit Superannuation Scheme Liability. Note: As we have no cash reserves to repay this loan, we will need to borrow this amount again, in order to pay back this debt. This is in the Long Term Financial Strategy as an additional borrowing, which will then be repaid as a principal and interest loan, payable over 10 years.	7 year interest only loan.	2014/15
Total: $46 million			

OUR CASH POSITION

The amount we spend on providing services and infrastructure for the community is increasing at a higher rate than the amount our revenue is increasing by, and we do not have any cash reserves to fill this gap.

In order to continue to provide the high level of service that our community values, we need a mix of rate revenue and user charges.

We will also continue to focus on reducing costs where possible, as well as finding other revenue opportunities.

PAYING BACK OUR LOANS

We have the $32.5M interest only loan mentioned in the Debt section above, which requires pay back in the 2021/22 financial year. As we have no cash reserves to repay this loan, we will be required to borrow this amount again, in order to pay back this debt. This is now in the Long Term Financial Strategy as an additional borrowing, and as a principal and interest loan.

IMPROVING OUR CASH POSITION

One of our cash strategies is to achieve a liquidity ratio of 1.4 by 30 June 2020, as determined by Council in the adoption of the 2017/18 budget..

A liquidity ratio is the ratio between liquid assets (cash or assets that can be easily converted in to cash) and our liabilities (debts).

This strategy was introduced in order to build our capacity to respond to any financial shocks, and to respond to those shocks or contingent liabilities with cash reserves, rather than borrowings.

To achieve a ratio of 1.4 by 30 June 2021 (all other things being equal), cash reserves needed to increase by $9M.

The only ways to achieve this level of additional cash was to decrease one or more ongoing services, sell surplus assets (property), or to reduce the capital works program. Regardless of the method, it is critical to hold the cash and not spend it. For this proposed budget, we have reduced our capital works program by $3 million over the next 3 years to achieve the 1.4 liquidity ratio.

If our contingent liabilities impact during this time then either additional savings, revenue or borrowings will need to be found/taken up.

WHAT ARE OUR CONTINGENT LIABILITIES?

A contingent liability is a debt that we may have to pay in the future. The main contingent financial liabilities that could have an impact include the legal decision in the Supreme Court case, Melbourne Fire and Emergency Services Board v Yarra City Council, regarding contaminated land, and another potential call on the Defined Benefits Superannuation Fund scheme.

THE FINANCIAL STATEMENTS EXPLAINED

We are required to prepare 6 key financial statements as part of our financial reporting.

These are:

- Comprehensive income statement
- Balance sheet
- Statement of changes in equity
- Statement of cash flows
- Statement of capital works
- Statement of human resources

The statements and their purpose are outlined below.

COMPREHENSIVE INCOME STATEMENT

This statement shows all of our revenue (money in) and expenditure (money out). However, not all of the line items in this statement are cash amounts of money coming in and money going out. This is because the statement is prepared in accordance with Australian Accounting Standards and therefore uses accrual accounting to calculate the figures.

Accrual accounting is different to cash accounting in that accrual accounting is a method that measures the performance and position of an organisation by recognising economic events regardless of when cash transactions occur. Rates are a good example of this.

Under the accrual method, we must recognise the rate revenue in the statement as soon as the rate notices are raised. Ratepayers have 10 months to pay their rates. When we expect them to physically pay is reflected in the cash flow statement.

The accrual accounting method is also the reason why the surplus (or "profit") at the end of the statement is not "cash" profit. The surplus is an accounting result only.

There are also non-cash elements in the comprehensive income statement. These are the net gain or loss on sale of assets, bad debts, and the depreciation amounts. Again, these are accounting items which are required to be disclosed in the statement.

BALANCE SHEET

The balance sheet shows all of our assets (what we own) and liabilities (what we owe), and its net worth (assets minus liabilities), which is the Equity section.

The balance sheet is divided up into current assets and current liabilities, as well as non-current assets and non-current liabilities.

A ***current asset*** is cash and other assets that are expected to be converted to cash within a year.

Non-current assets are cash and other assets that are expected to be converted to cash after more than 12 months.

A ***current liability*** is amounts due to be paid to creditors within 12 months.

Non-current liabilities are amounts due to be paid to creditors after more than 12 months.

STATEMENT OF CHANGES IN EQUITY

The statement in changes of equity shows the movement between the comprehensive income statement surplus/(deficit), and any movements in the balance sheet reserves. The transfers to and from other reserves is where the open space reserves income and expenditure are shown.

STATEMENT OF CASH FLOWS

The statement of cash flows shows the cash movement of our money in and money out. The net increase/decrease in cash and cash equivalents reflects how much cash we are either generating (to add to our cash balance at the end of the year) or spending over and above what it generates (which will decrease the cash balance at the end of the year).

We are a non-profit entity. Ideally the cash net movement is a minor increase each year as that indicates we are sustaining a balanced budget. In Yarra's case, we should be working towards a substantial increase each year in order to build our cash reserves in accordance with the 2017/18 budget resolution.

The cash balance at the end of the Cash Flow Statement should always equal the cash and cash equivalents in the balance sheet.

STATEMENT OF CAPITAL WORKS

The statement of capital works shows which projects we will be delivering in terms of renewing, upgrading, or constructing new assets.

The statement contains the works by asset class, and then also by a classification of renewal, upgrade, or new. These terms are explained below.

Renewal - the replacement or refurbishment of an existing asset (or component) with a new asset (or component) capable of delivering the same level of service as the existing asset.

Upgrade – any project that extends or upgrades an asset to cater for growth or additional service levels.

Expansion - expenditure that extends the capacity of an existing asset to provide benefits to new users at the same standard as is provided to existing beneficiaries.

New - expenditure incurred in the creation of a new asset.

The majority of our capital spend is focused on renewal of our existing assets. Best practice asset and financial management recommends entities should look after their existing assets before constructing new assets.

Our assets are crucial to the delivery of our services and it is therefore critical the renewal portion of the capital works program is sustained.

STATEMENT OF HUMAN RESOURCES

The statement of Human Resources shows all council staff expenditure and numbers of full time equivalent (FTE) council staff. FTE is also known as EFT (Equivalent Full Time).

The summary of human resources expenditure table in this statement should equal the employee costs in the Comprehensive Income Statement.