MINUTES

SPECIAL MEETING

Wednesday, 17 December 2014

The Council Chambers
Bloomfield Street
CLEVELAND QLD

Table of Contents

1 DECLARATION OF OPENING

The Mayor declared the meeting open at 12.59pm.

2 RECORD OF ATTENDANCE AND LEAVE OF ABSENCE

MEMBERS PRESENT:

Cr K Williams	Mayor
Cr A Beard	Deputy Mayor & Councillor Division 8
Cr W Boglary	Councillor Division 1
Cr C Ogilvie	Councillor Division 2
Cr K Hardman	Councillor Division 3
Cr L Hewlett	Councillor Division 4
Cr M Edwards	Councillor Division 5
Cr J Talty	Councillor Division 6
Cr M Elliott	Councillor Division 7
Cr P Gleeson	Councillor Division 9
Cr P Bishop	Councillor Division 10 - Teleconference

EXECUTIVE LEADERSHIP TEAM:

Mr B Lyon	Chief Executive Officer
Mr N Clarke	General Manager Organisational Services
Mrs L Rusan	General Manager Community & Customer Services
Mrs L Batz	Chief Financial Officer
Mr B Salton	Acting General Manager Infrastructure & Operations

MINUTES:

Mrs J Parfitt	Corporate Meetings & Registers Team Leader

3 DECLARATION OF MATERIAL PERSONAL INTEREST OR CONFLICT OF INTEREST ON ANY ITEMS OF BUSINESS

Nil

4 CLOSED SESSION

MOTION TO CLOSE THE MEETING AT 1.00PM

Moved by: Cr P Gleeson
Seconded by: Cr J Talty

That the meeting be closed to the public pursuant to Section 275(1) of the *Local Government Regulation 2012*, to discuss the following items:

4.1.1 PRIORITY DEVELOPMENT AREAS: DEVELOPER RESOLUTION

The reasons that are applicable in this instance are as follows:

(e) contracts proposed to be made by it; or

(g) any action to be taken by the local government under the Planning Act, including deciding applications made to it under that Act; or

(h) other business for which a public discussion would be likely to prejudice the interests of the local government or someone else, or enable a person to gain a financial advantage.

4.2.1 AUSTRLAIAN INDUSTRY TRADE COLLEGE

The reasons that are applicable in this instance are as follows:

(e) contracts proposed to be made by it; or

(h) other business for which a public discussion would be likely to prejudice the interests of the local government or someone else, or enable a person to gain a financial advantage.

CARRIED 11/0

MOTION TO REOPEN MEETING AT 1.39PM

Moved by: Cr A Beard
Seconded by: Cr M Edwards

That the meeting be again opened to the public.

CARRIED 11/0

4.1 ORGANISATIONAL SERVICES

4.1.1 PRIORITY DEVELOPMENT AREAS: DEVELOPER RESOLUTION

Dataworks Filename: **LUP Priority Development Areas (PDAs)**

Responsible/Authorising Officer: **Nick Clarke**
General Manager Organisational Services

Author: **Peter Kelley**
Project Director Priority Developments

EXECUTIVE SUMMARY

A confidential report from General Manager Organisational Services was discussed in closed session pursuant to section 275(1) of the *Local Government Regulation 2012*.

COUNCIL RESOLUTION

Moved by: Cr A Beard
Seconded by: Cr J Talty

That Council resolves to:

1. **Note the contents of this report;**
2. **Endorse the preliminary Master Plan for Toondah Harbour as presented by the Walker Group Holdings Pty Ltd;**
3. **Endorse the evaluation panel's recommendation that Walker Group Holdings Pty Ltd is awarded 'Preferred Development Status' for Toondah Harbour;**
4. **Endorse the evaluation panel's recommendation that Walker Group Holdings Pty Ltd is invited to continue negotiations with the Minister for Economic Development Queensland and Redland City Council to finalise a Development Agreement;**
5. **Endorse the evaluation panel's recommendation that the Weinam Creek Request for Proposal process be extended for a period of up to 12 months;**
6. **Indicate to the Minister for Economic Development Queensland and Walker Group Holdings Pty Ltd that Council would like the Master Plan to be made available to the public together with supporting background studies, once completed to the satisfaction of the Minister and Council; and**
7. **Note that this report remains confidential.**

PROCEDURAL MOTION OF DISSENT

Moved by: Cr C Ogilvie

That the Chair had not called the vote, had not even called for speakers or called for people to indicate their opposition to the motion so the Chair is not able to call the vote; and I would suggest to you that you are trying to quash debate and dissent on this motion rather than facilitate business.

LOST 4/7

Crs Hardman, Hewlett, Edwards, Talty, Beard, Gleeson and Williams voted against the motion.

Cr Beard's motion was put to the vote and **CARRIED 8/3**

Crs Boglary, Ogilvie and Bishop voted against the motion.

4.2 COMMUNITY & CUSTOMER SERVICES

4.2.1 AUSTRALIAN INDUSTRY TRADE COLLEGE

Dataworks Filename: **ED Liaison – Business Development**

Authorising Officer:

Louise Rusan
General Manager Community & Customer Services

Responsible Officer/Author: **David Jeanes**
Group Manager City Planning & Assessment

EXECUTIVE SUMMARY

A confidential report from General Manager Community & Customer Services was discussed in closed session pursuant to section 275(1) of the *Local Government Regulation 2012*.

COUNCIL RESOLUTION

Moved by: **Cr J Talty**
Seconded by: **Cr P Gleeson**

That Council resolves as follows:

1. **To adopt Option 1 as outlined in the report; and**

2. **That the report and its recommendations remain confidential.**

CARRIED 10/1

Cr Bishop voted against the motion.

5 ORDINARY REPORT

5.1 OFFICE OF CEO

5.1.1 FINANCIAL STRATEGY 2015-2025

Dataworks Filename: **FM Financial Strategy**

Attachment: **Financial Strategy 2015-2025**

Authoring Officer:

Bill Lyon
Chief Executive Officer

Responsible Officer: **Linnet Batz**
Chief Financial Officer

Author: **Deborah Corbett-Hall**
Service Manager Corporate Finance

PURPOSE

The purpose is to present the 2015-2025 Financial Strategy to Council in accordance with Section 171 of *The Local Government Regulation 2012*.

BACKGROUND

Council adopted its latest Financial Strategy on 18 December 2013 to outline the financial forecast for the period 2014-2024. The financial strategy provides Council with an agreed roadmap for managing its financial resources and contains the outputs and assumptions of the long-term financial forecast. The financial forecast includes ten year financial statements at entity level including a Statement of Comprehensive Income, Statement of Cash Flows and Statement of Financial Position. Over the last twelve months, the financial forecast has been updated to reflect the

- 2014-2015 budget development process and subsequent budget reviews;
- 2013-2014 end of year accounts finalisation (opening balances impacts);
- financial policy updates made by Council; and
- changes in associated rates, assumptions and parameters.

Regular updates of the forecast ensure Council continues to set clear financial objectives and targets in order to demonstrate long-term financial sustainability and stewardship.

Within the framework of the Financial Strategy, guidance is provided to support decision-making with respect to capital and operating revenue and expenditure and asset and service management levels. The content of the Financial Strategy encompassing the Long-term Financial Forecast represents a point in time and is subject to change.

ISSUES

The long-term financial forecast highlights a number of areas for consideration and action in formulating decisions on revenue raising and operational and capital resourcing over the life of the financial strategy. These can be summarised as current forecasts predicting:

- increases in general rate revenue to generally be in line with the Australian Bureau of Statistics Consumer Price Index (ABS CPI);
- stable cash balances throughout years one to ten, which remains within relevant measures of financial sustainability;
- an operating surplus for the life of the strategy; and
- low amounts of borrowing and the costs of servicing these debts is within relevant measures of financial sustainability.

The Financial Strategy provides a clear indication of a solid financial position and performance for Council over the life of the Strategy and ensures that plans are in place for the achievement of financial sustainability measures.

STRATEGIC IMPLICATIONS

Legislative Requirements

The adoption of a Financial Strategy is good business practice but is also supported through the following Queensland legislation:

- *The Local Government Act 2009; and*
- *The Local Government Regulation 2012.*

Risk Management

The Long-Term Financial Forecast is continuously reviewed throughout the financial year, at least in line with formal budget reviews and the annual budget development process.

Financial

The attached document provides the financial policy framework to guide decisions for the 2015-16 annual budget. The assumptions in the strategy will be regularly reviewed and updated where required.

There are no immediate financial implications from adopting the attached strategy, all forecast revenues, costs and efficiencies will be workshopped and debated in the lead up to the adoption of the 2015-16 budget.

People

Nil impact expected from this report. The strategy includes a financial forecast for Council to work towards and amend as necessary. Specific people impacts as a result of implementing the strategy will be raised with Council when and if they arise.

Environmental

Nil impact expected from this report. The strategy includes a financial forecast for Council to work towards and amend as necessary. Specific environmental impacts as a result of implementing the strategy will be raised with Council when and if they arise.

Social

Nil impact expected from this report. The strategy includes a financial forecast for Council to work towards and amend as necessary. Specific social impacts as a result of implementing the strategy will be raised with Council when and if they arise.

Alignment with Council's Policy and Plans

This report has a relationship with the following items of the Corporate Plan:

9. An efficient and effective organisation

Council is well respected and seen as an excellent organisation which manages resources in an efficient and effective way

9.5 Ensure robust long term financial planning is in place to protect the financial sustainability of Council

9.6 Implement long term asset management planning that supports innovation and sustainability of service delivery, taking into account the community's aspirations and capacity to pay for desired service levels

9.7 Develop our procurement practices to increase value for money within an effective governance framework

CONSULTATION

The strategy has been compiled with the input and feedback from the Executive Leadership Team, Councillors and finance officers.

Council discussed the parameters and assumptions of the ten year financial forecast at a workshop on 4 June 2014. The key finance policies were reviewed as part of the 2014-15 annual budget development process. Following the 2013-14 accounts finalisation and carryover review, the ten year financial forecast was updated in October and a further workshop was held with Council on 18 November 2014 and incorporates the 2014-15 first budget review.

OPTIONS

1. Council resolves to adopt the Financial Strategy 2015-2025; or
2. Council resolves to not adopt the Financial Strategy 2015-2025 and to continue further development.

**OFFICER'S RECOMMENDATION/
COUNCIL RESOLUTION**

Moved by: **Cr M Edwards**
Seconded by: **Cr J Talty**

That Council resolves to adopt the Financial Strategy 2015-2025.

PROPOSED AMENDMENT

Moved by: Cr C Ogilvie
Seconded by: Cr W Boglary

That Council resolves to adopt the Financial Strategy 2015-2025 and that Council reviews the strategy after due diligence on the Priority Development Areas has been completed.

On being put to the vote the proposed amendment motion was LOST.

Cr Edwards' motion was put to the vote and **CARRIED 11/0**

2015-2025

Financial Strategy

December 2014

Redland CITY COUNCIL

Table of Contents

1. Executive Summary and Overview

1.1 Executive Summary

1.1.1 The Financial Strategy and Long-Term Financial Forecast

The Financial Strategy (the 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 long-term financial modelling in accordance with section 171 of the *Local Government Regulation 2012 (the 'Regulation').*

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

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

- Corporate Plan;
- Long-Term Asset and Service Management Plans (ASMPs);
- Annual Budgets;
- Operational Plans;
- Financial Policies; and
- Ten Year Capital Programme.

Outputs from the Ten Year Financial Model – Key Performance Indicators

LONG-TERM FINANCIAL FORECAST – FINANCIAL STABILITY RATIOS										
	Year 1 2015-16	Year 2 2016-17	Year 3 2017-18	Year 4 2018-19	Year 5 2019-20	Year 6 2020-21	Year 7 2021-22	Year 8 2022-23	Year 9 2023-24	Year 10 2024-25
Level of dependence on General Rate Revenue	33.1%	32.6%	32.7%	32.9%	33.0%	33.0%	33.0%	33.0%	32.1%	32.6%
Ability to pay our bills - Current Ratio	2.3	2.7	2.6	2.4	2.4	2.3	2.7	3.3	3.7	4.0
Ability to repay our debt - Debt Servicing Ratio	3.4%	3.4%	3.4%	3.3%	3.1%	3.0%	2.8%	1.9%	1.0%	0.9%
Cash Balances - $'000	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690	126,869
Cash Balances - Cash Capacity in Months	3.5	3.8	3.8	3.0	3.1	3.1	3.7	4.4	5.3	5.8
Longer term financial stability - Debt to Asset Ratio	2.2%	2.0%	1.7%	1.4%	1.2%	0.8%	0.5%	0.3%	0.2%	0.1%
Operating Performance	23.3%	21.7%	20.2%	20.0%	21.6%	22.5%	21.9%	21.4%	22.6%	22.6%

LONG-TERM FINANCIAL FORECAST – MEASURES OF SUSTAINABILITY										
	Year 1 2015-16	Year 2 2016-17	Year 3 2017-18	Year 4 2018-19	Year 5 2019-20	Year 6 2020-21	Year 7 2021-22	Year 8 2022-23	Year 9 2023-24	Year 10 2024-25
Operating Surplus Ratio	2.8%	4.8%	1.9%	2.7%	3.5%	5.1%	5.2%	5.3%	7.6%	7.8%
Net Financial Liabilities Ratio	1.9%	-5.2%	-8.8%	-6.9%	-10.0%	-11.8%	-18.6%	-25.2%	-31.0%	-34.9%
Interest Coverage Ratio	0.5%	0.5%	0.3%	0.0%	0.0%	-0.2%	-0.4%	-0.7%	-0.9%	-1.2%
Asset Sustainability Ratio (Infrastructure Assets Only)	52.4%	54.4%	45.1%	41.4%	37.0%	45.6%	45.8%	36.5%	36.2%	74.2%
Asset Consumption Ratio (Infrastructure Assets Only)	67.8%	67.1%	66.2%	65.2%	64.5%	63.3%	61.8%	60.4%	58.9%	58.6%

LONG-TERM FINANCIAL FORECAST – PROJECTED STATEMENT OF COMPREHENSIVE INCOME										
	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
Total Operating Revenue	240,912	252,544	259,511	265,904	273,234	284,499	296,231	309,064	330,104	339,205
Total Capital Revenue	14,679	13,052	12,778	13,342	11,593	14,355	12,160	12,425	13,386	9,943
TOTAL REVENUE	255,591	265,596	272,290	279,245	284,827	298,854	308,391	321,489	343,491	349,148
Total Operating Expenditure	234,223	240,445	254,486	258,641	263,582	269,968	280,848	292,553	305,164	312,578
Total Capital Expenditure	-974	-826	-828	-509	-1,178	-1,228	159	-704	-66	-66
TOTAL EXPENDITURE	233,249	239,619	253,658	258,132	262,403	268,740	281,006	291,850	305,097	312,512
NET RESULT	22,342	25,977	18,632	21,113	22,423	30,114	27,385	29,640	38,393	36,636
Other Comprehensive Income	0	0	0	0	0	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	22,342	25,977	18,632	21,113	22,423	30,114	27,385	29,640	38,393	36,636

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF FINANCIAL POSITION										
	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
Total Current Assets	96,332	104,094	108,192	95,489	99,083	99,747	115,258	134,095	157,567	172,220
Total Non-Current Assets	2,131,574	2,139,837	2,148,669	2,174,428	2,187,878	2,211,608	2,217,462	2,224,543	2,238,183	2,258,781
TOTAL ASSETS	2,227,906	2,243,931	2,256,861	2,269,917	2,286,961	2,311,356	2,332,720	2,358,638	2,395,750	2,431,002
Total Current Liabilities	42,157	38,792	42,124	40,442	41,808	43,285	42,203	41,019	42,421	42,839
Total Non-Current Liabilities	58,749	52,163	43,128	36,752	30,007	22,811	17,873	15,335	12,651	10,850
TOTAL LIABILITIES	100,906	90,954	85,252	77,195	71,815	66,096	60,076	56,354	55,072	53,688
NET ASSETS	2,127,000	2,152,977	2,171,609	2,192,722	2,215,146	2,245,260	2,272,644	2,302,284	2,340,677	2,377,313
TOTAL COMMUNITY EQUITY	2,127,000	2,152,977	2,171,609	2,192,722	2,215,146	2,245,260	2,272,644	2,302,284	2,340,677	2,377,313

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF CASH FLOWS

	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
NET CASH FLOW - OPERATIONS	55,991	54,753	52,456	53,264	58,871	63,903	64,822	65,978	74,530	76,663
NET CASH FLOW - INVESTING ACTIVITIES	(56,159)	(41,990)	(43,003)	(60,237)	(49,144)	(56,874)	(42,504)	(42,593)	(48,914)	(59,727)
NET CASH FLOW - FINANCING ACTIVITIES	(4,900)	(5,232)	(5,588)	(5,968)	(6,374)	(6,809)	(7,264)	(5,011)	(2,614)	(2,757)
NET INCREASE (DECREASE) IN CASH HELD	(5,067)	7,531	3,864	(12,940)	3,353	220	15,053	18,374	23,003	14,179
CASH AT THE START OF THE FINANCIAL YEAR	59,299	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690
CASH AT END OF THE FINANCIAL YEAR	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690	126,869

1.1.2 The Financial Strategy Objectives

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

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

The Department of Local Government, Community Recovery and Resilience (DLGCRR) produced a statutory guideline in 2013 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 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; and
- 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.

In addition to the Strategy objectives, Council has four operational objectives. Council demonstrates its commitment to financial sustainability by ensuring one of the four operational objectives is considering the community's financial wellbeing. 'Exceeding financial targets while delivering outcomes' is an objective tasked to each and every employee of Council and the expectation is adopted budgets and strategies are not just met, but the stretch targets and measures are *exceeded*.

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; and

- It ensures that our planning is integrated and effective and that there is clear linkage between community expectations and service delivery within affordable limits.

1.1.4 Key Principles

We will achieve these outcomes through implementation of sections twelve and thirteen of the Act. Section twelve outlines the responsibilities of Councillors; section thirteen outlines 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; and
    - Challenging the priority and need for discretionary operational projects;
- Continuing with rating reform including applying user pays principles where it is appropriate to do so;
- Optimising our capital and borrowing programmes to ensure delivery of projects which maximise synergies, gain economies of scale and balance the objectives of the Corporate Plan and Financial Strategy. This includes assessing borrowing levels over the medium to long term and making an assessment of the deliverability of projects;
- Utilising returns from cash investments to minimise financial impacts on ratepayers; and
- Investigating the new services or types of business where appropriate and feasible to generate additional returns for Council and minimise financial impacts on ratepayers.

1.1.5 Accountability and Transparency

Council prioritises two attributes of public sector reporting to be ‘accountability’ and transparency’. We will demonstrate accountability and transparency by:

- Having clear financial stability and sustainability ratios, and associated targets which demonstrate if Strategy objectives are being achieved;
- Applying full cost pricing to services where it is appropriate which will ensure that the full cost of services including providing Community Service Obligations (CSOs) are clearly identified and accounted for in their own right;
- Clearly linking our revenue and spending decisions to corporate plans and specific projects initiatives; and
- Obtaining independent assessment of the sustainability of our Strategy through the Queensland Treasury Corporation (QTC) which will provide confirmation or otherwise of progress against strategic objectives and provide guidance on any necessary changes.

1.1.6 Reviewing and Refining the Financial Strategy

The Strategy will be continually revised by:

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

1.2 Overview

1.2.1 Background

The Strategy provides us with an agreed roadmap for managing our financial resources and processes and is aligned with the objectives and priorities of our corporate plans. Council is presently reviewing its 5-year Corporate Plan which impacts on our aforementioned Financial Management System. Within the framework of the Strategy, guidance is provided to support decision making with respect to capital and operating revenue and expenditure, asset and service management levels and procurement operations.

The Strategy is influenced by:

- Global, national, regional and local economic conditions;
- Population growth;
- Changes in population demographics (for example an ageing population);
- Legislative and statutory requirements;
- Changes in regulated frameworks (water operations); and
- Known changes in Federal and State Government funding.

A key component of the Strategy is the LTFF which is 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 drives the annual budget development process by way of outlining the 'affordability envelope' and 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 assumptions:

- The revised budget of the current financial year (2014-15) is the base year for the long-term financial forecast;
- No growth in employee costs for the life of the model;
- Efficiency targets are built into operational goods and services line item although in reality may be allocated between
    - operational goods and services; and
    - operational employee costs;
- One-off efficiency targets (in dollars) can be added in to the respective year and will not be escalated in subsequent years;
- Intergenerational operating expenditure in 2014-15 ($7.5M) that contributed to the operating deficit is not indexed for outer years;
- Intergenerational one-off operational expenditure has been included for each year (including partially offsetting the $7.5M mentioned above) to maintain a sustainable and deliverable operational programme;
- New borrowings are subject to change to respond to the needs of the ten year capital programme, ASMPs and also the Capital Works Prioritisation Policy;
- All borrowing costs are expensed, irrespective of whether Council has qualifying assets;
- Property, Plant and Equipment is based on current revised figures and subject to change post end of year accounts finalisation when any appropriate revaluations are taken to the accounts;
- Provisions are based on current revised figures and subject to change post end of year accounts finalisation when discounting rates are released; and
- Water business modelling forms a subset of Council's whole of organisation modelling. Due to the complexities of the water business modelling and impacts from state bulk water price path, the water business is allocated its own parameters and the outputs of the water model form inputs to the whole of Council long term financial forecast.

One of the most significant factors impacting Council's financial position is growth in rateable properties. Council continues to take a conservative approach for the life of the forecast based on recent historical information, current development trends and available information.

The Australian Bureau of Statistics Consumer Price Index (ABS CPI) has been used in the ten year forecast for general rates where possible. The CPI rate is reviewed every quarter as statistics become available.

The Enterprise Bargaining Agreement (EBA) has been used for price increases associated with all employee costs. Council reviews its EBA every three years.

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

It is advised that the Engineering Construction, Queensland index from the Office of Economic and Statistical Research is used for the ten year capital works programme.

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

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

RCC - Blended CPI Calculation - 2015/16			
Cost	Index %	Expense Proportion	Weighted CPI %
General	2.600%	30.281%	0.78%
General Construction	3.730%	23.260%	0.87%
Roads & Bridges	1.800%	10.594%	0.19%
Employee	2.500%	35.865%	0.90%
		100.00%	**2.74%**

1.2.3 Financial Stability and Measures of Sustainability

A key objective of the Strategy is to achieve financial sustainability by maintaining its 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 – Council has diversified revenue streams (*Level of Dependence on General Rate Revenue Ratio*);
- Ensuring that we have the ability to pay for our bills (*Current Ratio, Cash Balance and Cash Capacity in Months Ratio*) while also ensuring the optimal level of cash is held;
- 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*); and
- Ensuring that our infrastructure assets are maintained and fit for purpose (*Asset Sustainability Ratio and Asset Consumption Ratio*).

1.2.4 Financial Sustainability Summary

The adopted December 2012 Strategy and LTFF were subject to a Financial Sustainability Review by the Queensland Treasury Corporation (QTC) in May 2013 which resulted in a rating of **Sound** with a **Neutral** outlook, which has remained unchanged from the 2010-11 Financial Year Credit Review.

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

Council is aware of the need to generate positive operating results and has focused on its own operating cost structure in order to achieve this objective, whilst balancing the needs of the community with initial investment in intergenerational projects and also high cost projects such as dredging.

The neutral outlook reflects the view that there is no known issue or events which are expected to have a positive or negative impact on Council's rating within the 24 month operating period from the review date.

Council will endeavour to achieve an operating surplus in 2015-16 and maintain a balanced budget or operating surplus for the life of the long-term financial forecast. Whilst Council is not budgeting to increase borrowings in 2014-15, we have requested a Financial Sustainability Review in 2015 to ensure current Financial Strategy approaches and assumptions are reasonable and our long-term financial forecasting is as accurate as possible to support future revenue and expenditure decisions.

1.2.5 Key Finance Policies

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

Investment Policy

- Council is looking to get higher returns on its investments whilst protecting the capital value; and
- 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 in excess of the sustainable target range (3 to 4 months cash capacity), Council will use existing surplus funds and only borrow when necessary for intergenerational capital projects;
- Council has moved to prepaying its debt on an annual basis from 2014-15 and will continue to do so when surplus funds are available to further reduce the liabilities on the community's balance sheet; and
- Council will only borrow for works that fall into at least one of the following categories
    - Risk Management;
    - Asset Management; or
    - Intergenerational Projects.

Revenue Policy

- Council will be guided by the following principles when levying rates and setting other fees and charges
    - Accountability;
    - Transparency;
    - Representation;
    - Sustainable financial management;
    - Fairness;
    - Differentiation of categories;
    - Special needs and user pays; and
    - Social conscience.

Procurement Policy

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

Asset and Services Management Policy

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

Capital Works Prioritisation Policy

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

Constrained Cash Reserves Policy

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

2. Parameters and Measures
2.1 Parameters

Council has a range of parameters grouped into the following categories
- Growth increases (%)
- Price increases (%)
- Efficiency Targets ($ and %)
- Additional Amendments ($ and %)
- Water business pricing model outputs

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

Growth Increases %	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
General Rates Charges	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0
Waste Utility Charges	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
General Fees & Charges	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Operating Costs	0.5	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Price Increases %	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Underlying CPI	2.6	2.6	2.6	2.6	2.6	3.1	3.1	3.1	3.1	3.1
RCC Blended CPI	2.74	2.74	2.74	3.0	3.0	3.0	3.5	3.5	3.5	3.5
Employee Costs (EBA)	2.5	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
General Rates	2.6	2.6	2.6	2.6	2.6	3.1	3.1	3.1	3.1	3.1
General Fees & Charges	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Interest Rates	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0

Efficiency Targets %	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Employees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational Goods & Services	1.0	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Additional amendments	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Infrastructure Charges %	10.0	10.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on Sale of Developed Land $'000	3,499	6,883	4,840	1,637	0	0	0	0	0	0
Intergenerational one off opex adjustments	-4,454	3,250	3,000	4,000	5,000	6,000	10,000	10,000	10,000	10,000

Water Business $'000	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Water Revenue	56,643	59,129	61,729	64,450	67,297	70,276	73,392	76,653	87,609	87,609
WasteWater Revenue	39,348	40,753	41,836	43,139	44,482	45,866	47,294	48,767	50,285	50,285
Fees & Charges	760	760	760	760	760	760	760	760	760	760
Interest Revenue	613	613	613	613	613	613	613	613	613	613
Community Service Obligations	71	71	71	71	71	71	71	71	71	71
Other Revenue	1,571	1,571	1,571	1,571	1,571	1,571	1,571	1,571	1,571	1,571
Employee Costs	8,295	8,502	8,715	8,933	9,156	9,385	9,619	9,860	10,106	10,106
Operational Goods & Services	44,169	48,783	61,164	65,100	69,314	73,826	78,655	83,828	89,370	89,370
Depreciation	17,009	16,603	16,622	16,620	16,500	16,267	16,124	16,018	15,857	15,857
Net Internal Costs	2,117	2,224	2,333	2,446	2,561	2,680	2,801	2,926	3,054	3,054

2.2 Financial Sustainability Targets

Council continues to measure against more ratios than the legislative requirement to demonstrate its ongoing commitment to financial sustainability. Council has seven long standing performance measures and they are outlined in the table below. The targets and target ranges are set by Council and are reviewed annually to remain realistic but also 'stretch' in nature. Each ratio is defined in the glossary and Council reports on its performance against both the target and the anticipated performance in the revised budget on a monthly basis.

Financial Stability Ratios	Target
Level of Dependence on General Rate Revenue (%)	Target less than 37.5%
Ability to Pay Our Bills - Current Ratio	Target between 1.1 and 4.1
Ability to Repay Our Debt - Debt Servicing Ratio (%)	Target less than or equal to 10%
Cash Balance $M	Target greater than or equal to $40M
Cash Balances - Cash Capacity in Months	Target 3 to 4 months
Longer Term Financial Stability - Debt to Asset Ratio (%)	Target less than or equal to 10%
Operating Performance (%)	Target greater than or equal to 20%

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

- Operating surplus ratio;
- Net financial liabilities; and
- Asset sustainability ratio.

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

Council also chooses to set targets for, measure, and report against the

- Interest cover ratio; and
- Asset consumption ratio

to ensure the financial performance, position and forecasts are balancing the community's needs with respect to financial sustainability.

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

Measures of Sustainability	Target
Operating Surplus Ratio (%)	Target between 0% and 10% (on average over the long-term)
Net Financial Liabilities (%)	Target less than 60% (on average over the long-term)
Interest Cover Ratio (%)	Target between 0% and 5%
Asset Sustainability Ratio (%)	Target greater than 90% (on average over the long-term)
Asset Consumption Ratio (%)	Target between 40% and 80%

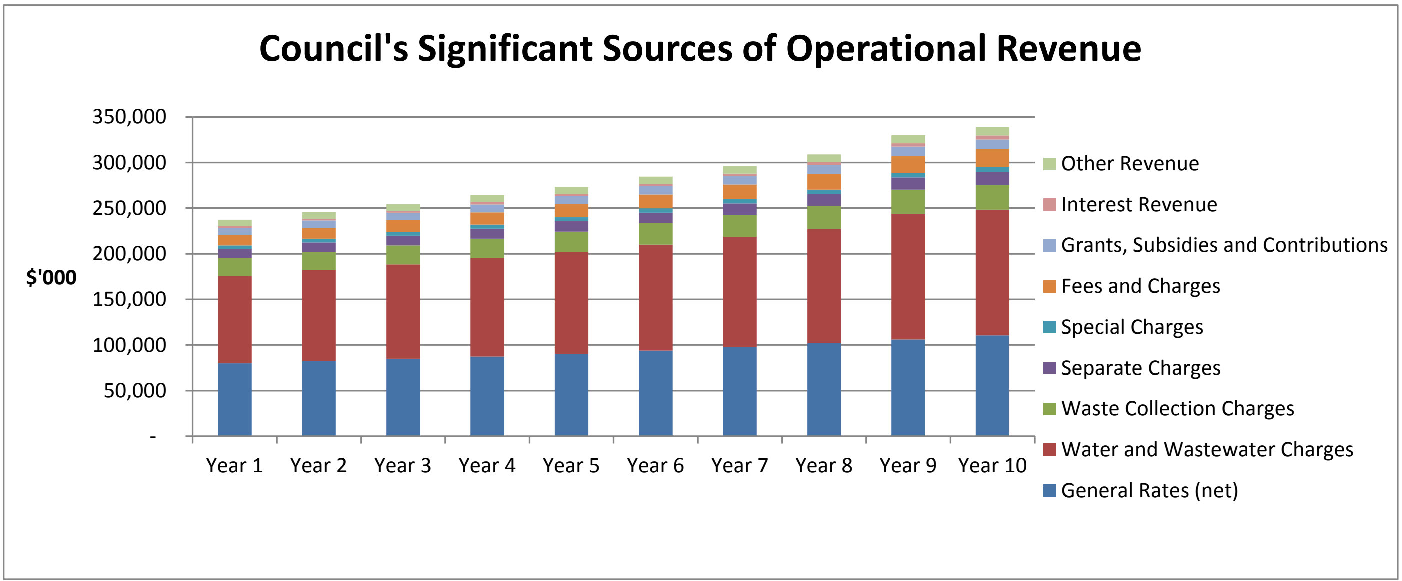
3. Revenue and Pricing Management

3.1 Background

Council's significant sources of operational revenue include

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

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



Of note, the increases in water charges are significantly influenced by the increase and pass through costs associated with the purchase of bulk water from the State Government. Council has established constrained cash reserves to ring fence water revenues for future years as part of its ten year price path.

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

- Investment returns – Council is looking to maximise its returns whilst interest rates remain low;
- Growth of general rate less than RCC Blended CPI – Council is looking to diversify its revenue streams and ensure commercial opportunities forecast returns that support balanced or surplus budgets without excessive rate increases;

- Federal and State grants and subsidies – due to the indexation freeze on the Financial Assistance Grant in addition to the continued risk for redirection of these funds into other essential areas; and
- Fees and charges – due to recent decline in volume and continuing economic conditions.

Council will continue to price its separate and special charges through comprehensive financial modelling that takes into consideration the associated costs, appropriate indices and the desired programme of delivery.

With respect to water, wastewater and waste collection modelling and pricing, please refer to the chapter on commercial opportunities. All other operational revenue streams are predicted to increase in line with adopted key assumptions and parameters as outlined above.

Council's significant capital revenue streams include

- Environmental Reserve;
- Canal and Lake Reserves;
- Infrastructure Charges;
- Federal and State Capital Grants and Subsidies;
- Borrowings; and
- General Revenue.

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

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

3.2 Revenue Policy Statement

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

Council will be guided by the following principles:

- Accountability — Council will be accountable to the providers of funds to ensure those funds are applied efficiently and effectively to satisfy the objective for which the funds were raised;

- Transparency — Council will be transparent in its revenue raising activities and will endeavour to use systems and practices able to be understood by the community;

- Representation — Council will act in the interests of the whole community in making decisions about rates and charges;

- Sustainable financial management — Council will ensure it manages revenue diligently and that the application of funds is founded on sustainable strategic objectives which result in timely and optimal investment in identified priorities;

- Fairness — While the rating legislation requires Council to use property valuations as the basis for raising rate revenue, Council will monitor the impact of valuation changes and moderate increases where possible;

- Differentiation of categories — Council will apply different rates to various categories of property that will reflect the particular circumstances of the categories and Council's policy objectives relating 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 special community programmes;
  - 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; and

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

3.3 Revenue Assumptions in the Long-Term Financial Forecast

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

- Increasing general rates in line with RCC Blended CPI or ABS CPI where possible;
- Maintaining water and wastewater charges increases in line with Council's long-term water price path and financial modelling outputs and in compliance with the Queensland Competition Authority (QCA) requirements. Of note, Council is working closely with both the Queensland Treasury Corporation (suppliers of Council's water pricing model) and QCA who review Council's water business price path. The 15-16 water business pricing will be reflective of any updates from QCA in early 2015 on the State Bulk Water price path – confirmation of the bulk water pass through costs over the ten year period is anticipated early in 2015 after the adoption of this strategy;
- Keeping waste collection and other fees and charges increases in line with the projected RCC Blended CPI increases, with an appropriate level of return to Council in accordance with the current *Local Government Act 2009* and *Local Government Regulation 2012* requirements:
- Seeking to maximise revenue from external grants and subsidies where possible;
- Seeking to increase the level of commercial returns and broaden commercial opportunities where practical; and
- Keeping growth projections for rateable properties at a conservative level for the life of the Strategy.

3.4 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Council decides to sell surplus land to raise additional revenue	Possible	Medium	**Medium**
Council diversifies its revenue streams to reduce the dependence on general rates	Possible	Medium	**Medium**
Investment income increases beyond forecast due to higher cash balances and rate increases	Unlikely	Low	**Low**

Risk	Likelihood	Consequence	Rating
Potential financial impact further water reform will have on Council	Possible	Major	**High**
Potential reduction in service delivery due to insufficient funding from external parties	Almost Certain	Medium	**High**
Fees and Charges take up reduced under 'user pays' pricing model	Almost Certain	Medium	**High**
Water usage patterns have an adverse impact on revenues beyond current forecasts	Possible	Medium	**Medium**
Ageing population increases burden on pensioner remissions	Likely	Low	**Medium**
General rate increases continue to increase on par with ABS or RCC Blended CPI	Possible	Low	**Medium**
Increase in outstanding debt affects cash flow and ability to deliver services	Rare	Low	**Low**
Predicted population growth does not materialise	Rare	Low	**Low**

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

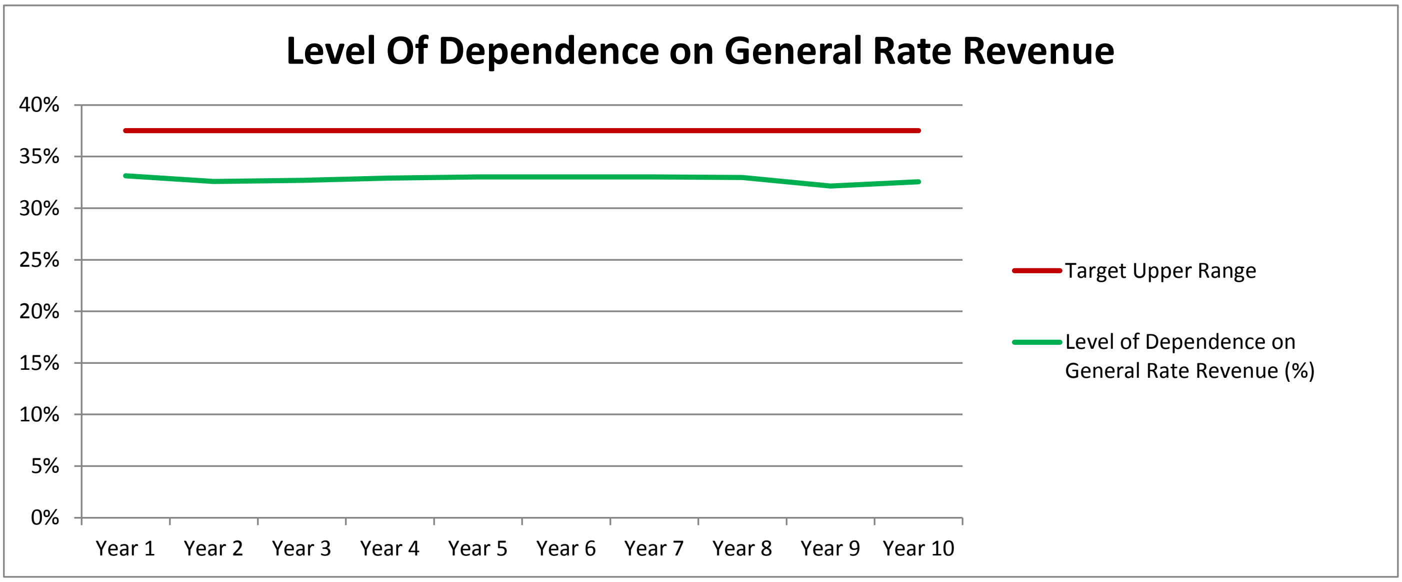
In order to mitigate the above risks or explore the opportunities, the following projects and actions progress across Council:

- Continue to enhance monthly cash management forecasting using the corporate Finance System in order to increases returns on investments when interests rates are low; signal issues (if applicable) relating to cash-flow and continue to minimise borrowings;
- Consider moving towards rolling forecasts to improve future estimates and increase the frequency of reviewing indices, parameters and assumptions;
- Review the existing Service Level Agreements (SLAs) and Activity Based Costing (ABC) methodologies to improve full cost pricing techniques, pricing for cost recovery fees and enhance internal charging to better understand costs of community services;
- Consider Council's grants management process - improve understanding of available monies, application processes and support to business areas to ensure external funding sources are considered every time to reduce the burden on the current and future ratepayers;
- Investigate and measure the potential impacts further water reform may have on Council's financial performance; and
- Investigate a staged plan to move towards less reliance on income streams from water and wastewater including considering other commercial opportunities.

3.5 Key Performance Information

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

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



4. Asset and Service Management

4.1 Background

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 assets. Council owns, manages, maintains and creates assets that are valued in the order of $2 billion.

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

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

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

- Compliance with the Capital Works Prioritisation Policy – renewal expenditure before new and also prioritisation based on quadruple bottom line reporting principles;
- Performance of Asset Sustainability Ratio – due to not meeting the Department’s target for the life of the Strategy;
- 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; and
- Valuation and Depreciation Methodologies – to ensure the optimisation of depreciation cost allocation.

4.2 Asset and Services Management Policy Statement

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

- Creation;
- Acquisition;
- Operation;
- Maintenance;
- Renewal; and
- Disposal

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

4.3 Asset and Services Management Guidelines

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

- Asset and Services Management Plans will drive borrowing decisions;
- Identification, scoping and prioritising of renewal projects in the ten year capital programme will continue to be prioritized (now formalised policy); and
- The integration of asset and services management plans and budgets is effected to ensure that whole-of-life asset and services costs are captured in order to understand the implications of the achievement of long term financial sustainability.

Council's policy is designed to provide guidance in the implementation and improvement of corporate asset and services management processes and seeks to achieve the following outcomes:

- Identify the key activities, roles and relationships associated with the implementation of an overarching asset management philosophy;
- Establish and communicate corporate responsibilities for the ownership, control, accountability and reporting of assets;
- Reinforce that assets should only be created, maintained, renewed or replaced in accordance with Asset and Service Management Plans;
- Help in meeting legislative compliance and associated risk management including financial reporting requirements and corporate governance;
- Highlight how our integrated asset management information systems and reporting tools support asset management activities and can provide a high standard of policy and decision support;
- Guide development of reliable systems and asset information that will allow for accurate financial forecasting and planning for sustainable service delivery;
- Identify how asset management processes integrate with corporate and operational planning, budgetary and reporting practices;
- Link individual departmental asset management activities with our overall community vision and corporate goals;
- Classify actions that will improve knowledge of existing asset inventories, asset condition and related performance; and
- Support ongoing improvements to existing Asset and Services Management Planning and corresponding financial forecasting, planning and reporting.

4.4 Key Risks, Issues and Mitigation Strategies

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

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

Risk	Likelihood	Consequence	Rating
Significant failure of critical infrastructure leads to financial stress	Possible	Major	**High**
Service level of assets are not at the level required	Almost Certain	Medium	**High**
Insufficient strategic planning for renewals and maintenance may lead to large scale unplanned capital renewals	Likely	Medium	**High**
Future financial sustainability is perceived to be impacted by failure to achieve asset sustainability targets	Possible	Medium	**Medium**
Material misstatement of financial statements due to non-capitalisation of assets	Rare	Major	**Medium**
Increasing public liability claims for injuries in public places and council owned or controlled facilities	Rare	Medium	**Low**
Increasing legal action for discrimination arising from inability to access council facilities and non-compliance of the Disability Discrimination Act	Rare	Medium	**Low**
Inadequate control of portable and attractive items results in additional expense to replace	Unlikely	Low	**Low**

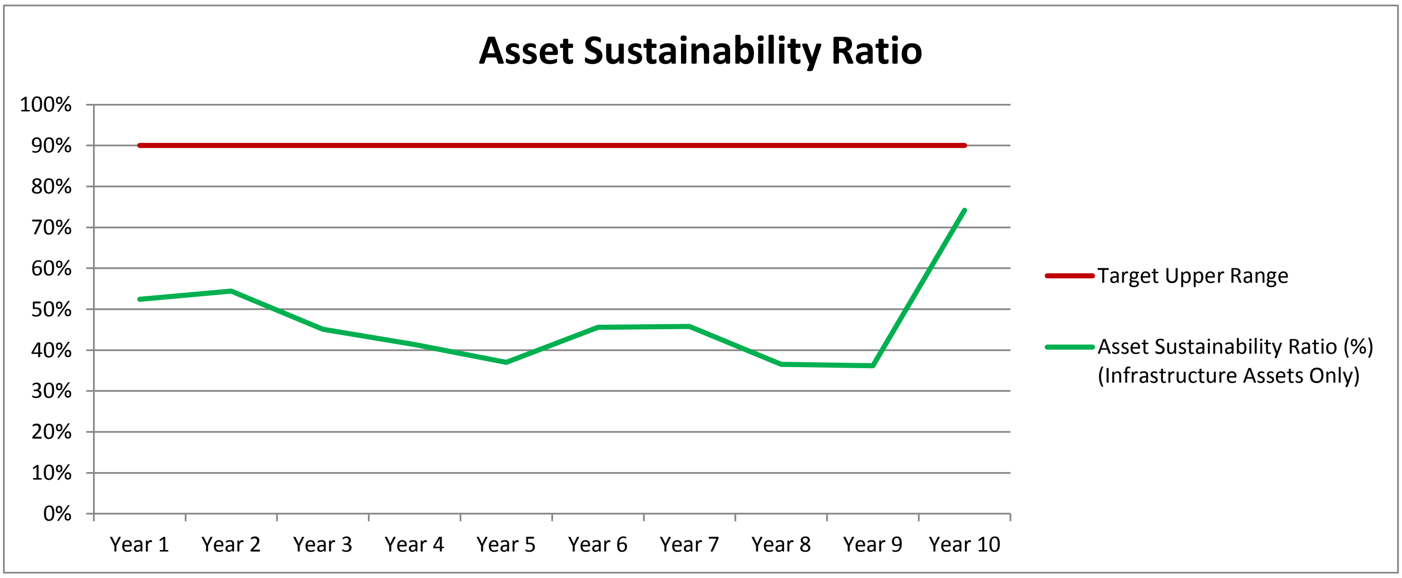
Risks are events or situations that may or may not arise depending on the success or otherwise of any actions that are put in place to mitigate, reduce or transfer the risk.

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

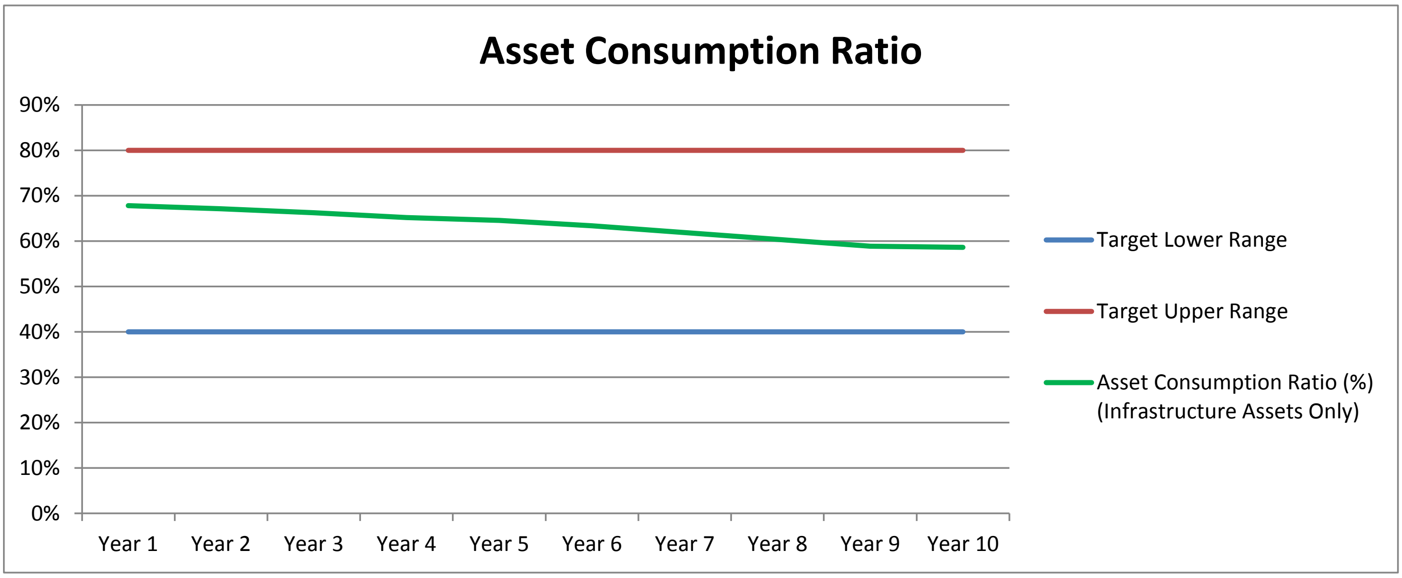
- Asset Management – to establish an Council-wide response to asset management, driven by the Executive Leadership Team (ELT);
- Ongoing additional development of asset and service management plans in accordance with statutory requirements, business needs and agreed service levels;
- Further development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

4.5 Key Performance Information

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



Further to the asset sustainability ratio, Council reports against another key performance indicator related specifically to assets. The asset consumption ratio measures the written down value of infrastructure assets as a percentage of the replacement cost. The current ten year capital programme and depreciation forecasts result in the following graph:

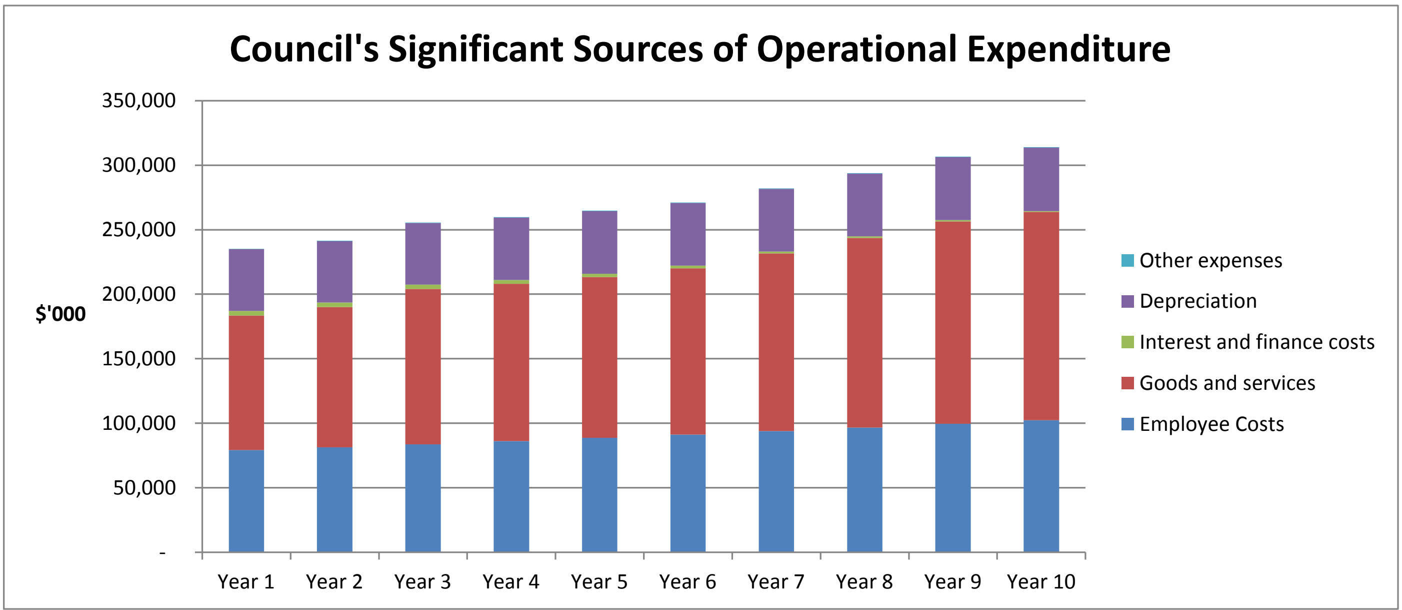


5. Expenditure Management
5.1 Background

Council’s significant sources of operational expenses include

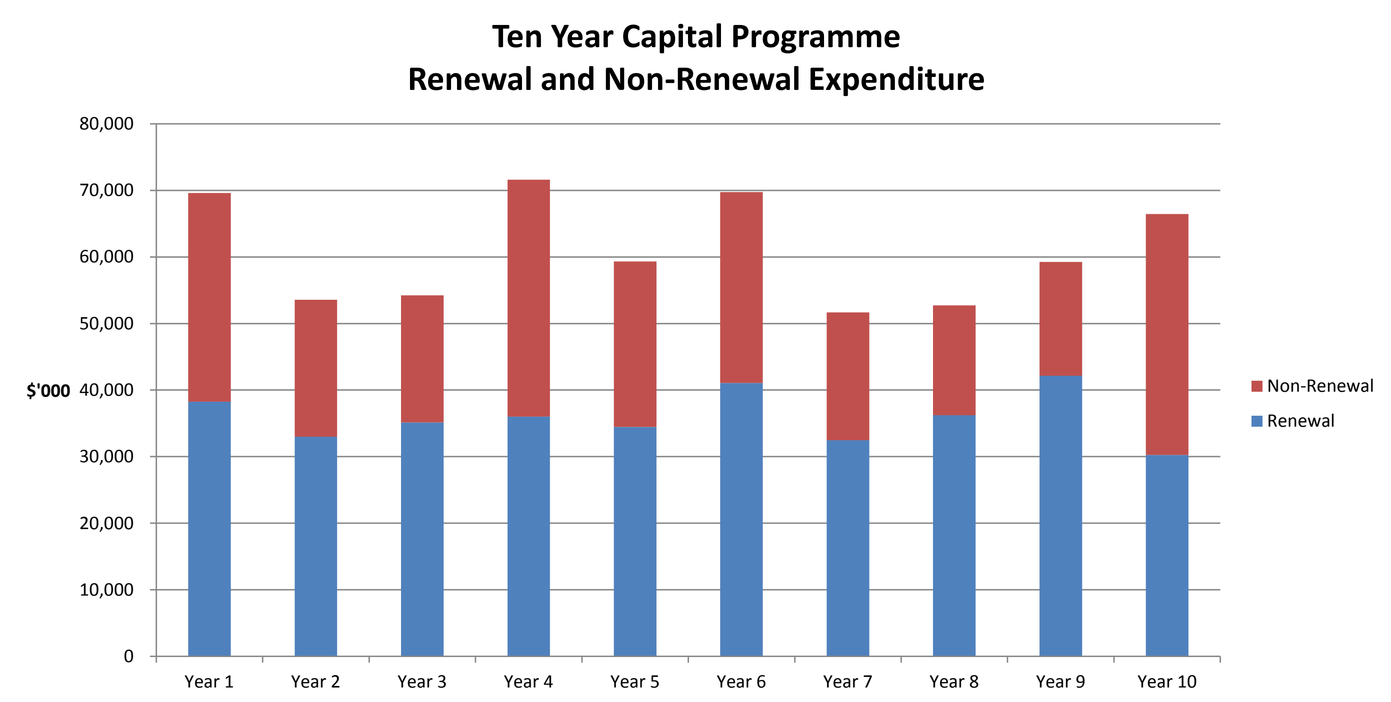
- Employee costs;
- Goods and services;
- Interest and finance costs;
- Depreciation; and
- Other expenses (including community service obligations and subsidies).

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



Of note, the above increase in the projection of goods and services is significantly influenced by the increase and pass through costs associated with the purchase of bulk water from the State Government. Council has established constrained cash reserves to ring fence water revenues for future years as part of its ten year price path.

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 programme and the expenditure split is underpinned by Council’s Capital Works Prioritisation Policy - ‘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 ones which will require continued management attention in order to support the achievement of reaching an operating surplus:

- Employees – to continue to critically review the cost of management and staff, including temporary staff and agency colleagues to ensure activities are resourced in the most efficient and effective manner;
- Goods and Services – to critically review the timing and cost of discretionary operational projects;
- Goods and Services – to lower and continue to review operational activity expenditure, building on proven industry best practice in addition to implementing efficiencies where practicable (Lean Thinking Methodologies for example);
- Interest Expense and Finance Costs – Council has recently moved to annual debt repayments to reduce interest expense and works with treasury service providers to control finance costs; and
- 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:

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

5.2 Expenditure Management Policy Statement

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

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

5.3 Expenditure Assumptions in the Long-Term Financial Forecast

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

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

5.4 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Improving project management processes results in reduced costs and risks, enhanced	Likely	Medium	**High**
Improved procurement practicies in line with relevant legislation	Almost Certain	Medium	**High**
Improved leave management resulting in reduced costs	Likely	Low	**Medium**
Improved control of consultants and temporary staff to manage increasing costs	Likely	Low	**Medium**
Review of activity based costing methodologies to drive efficiencies in processes	Almost Certain	Medium	**High**
Continued improvements in the asset accounting space to ensure assets are recorded and depreciated accurately	Almost Certain	Medium	**High**

Risk	Likelihood	Consequence	Rating
Failure to reflect whole of life costs of services in forecasting	Likely	Medium	**High**
Possible reduction in service delivery due to cost shifting from other tiers of governments	Possible	Medium	**Medium**
Retaining staff and keeping skill levels up to the market expectations with required levels of	Possible	Medium	**Medium**
Ineffective planning of increases to service levels leads to increased costs	Possible	Low	**Medium**
Future financial sustainability is potentially impacted by failure to achieve operational	Possible	Medium	**Medium**
Council's cash balances reduce significantly to prevent annual prepayment of debt resulting in	Rare	Low	**Low**

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

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

- Continued business process reviews and service level review projects – to undertake robust reviews of our services to determine the optimum level of efficiency and effectiveness;
- Further development of a Lean Thinking Methodology and process; and

- Review of the Portfolio Management Office and associated processes – maintaining governance, accountability and deliverability over operational and capital projects.

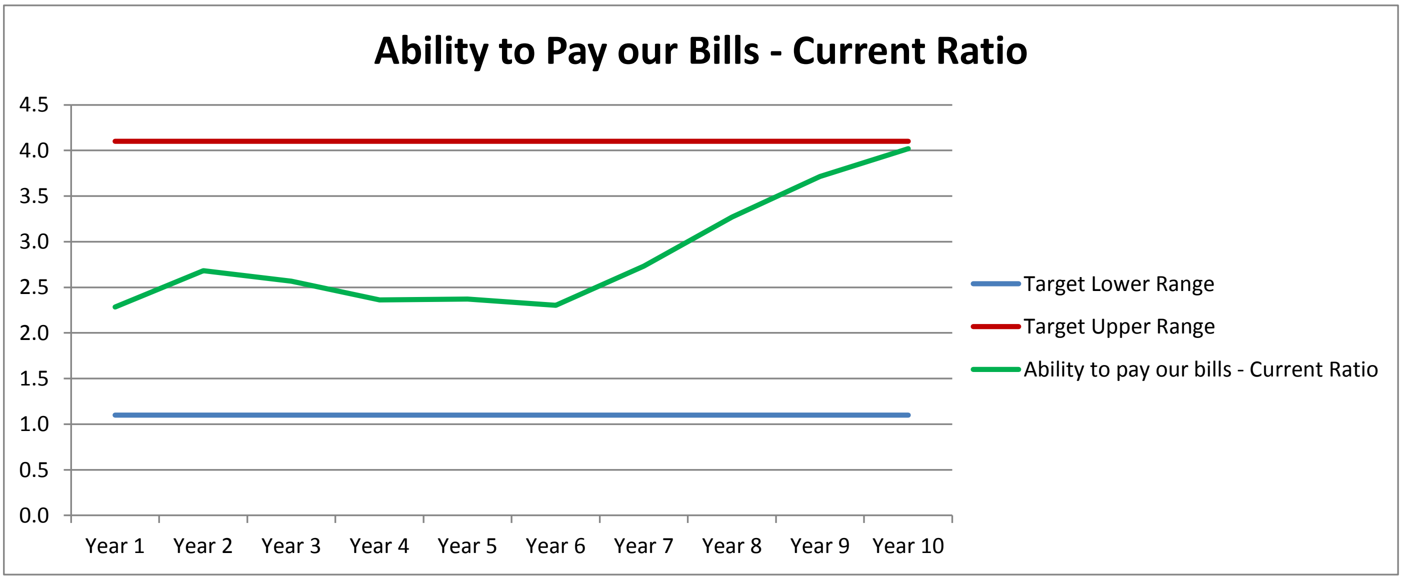
The following risks continued to be 'watched' before mitigation projects are initiated:

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

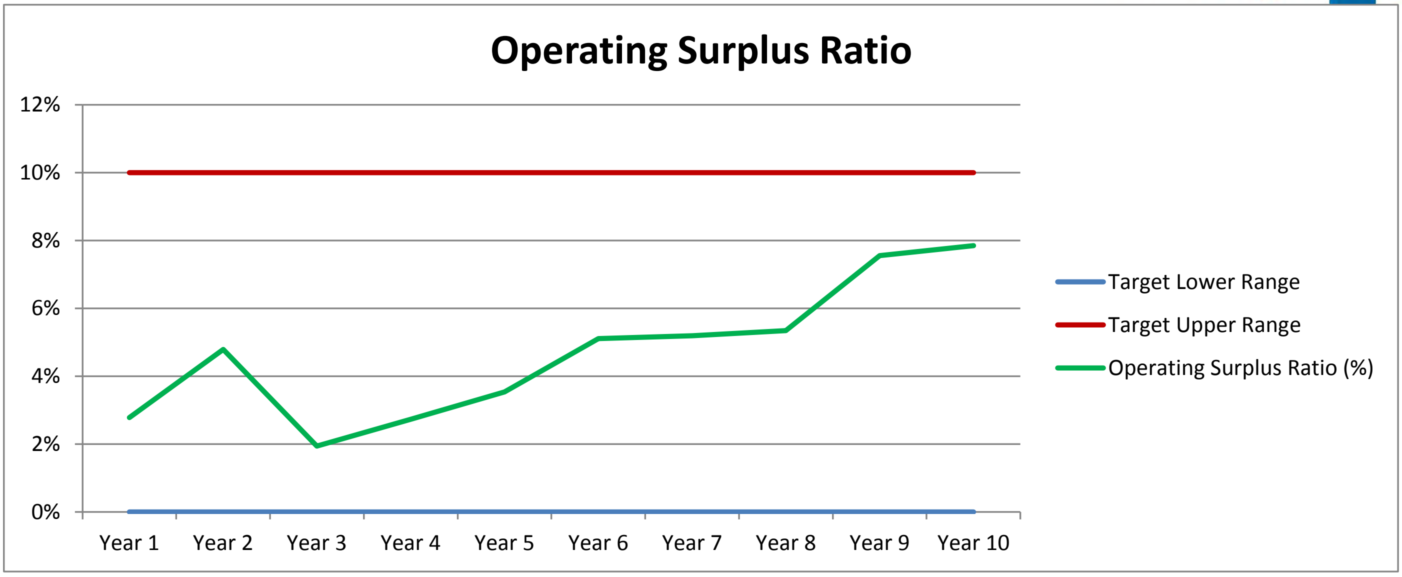
5.5 Key Performance Information

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

If the current ratio is too high over a sustained period, this may indicate the Council may not be efficiently using its current assets or its short-term financing facilities and may also indicate problems in working capital management.



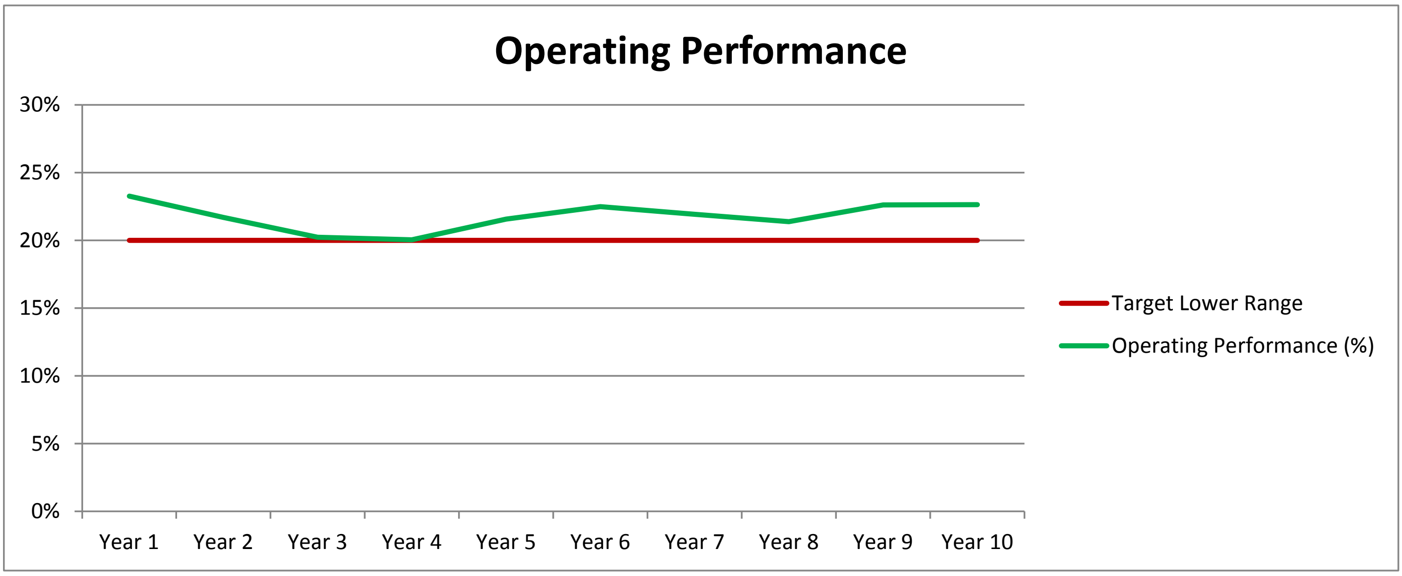
The operating surplus ratio is a measure of how recurrent revenues cover recurrent expenditures (including interest expense and depreciation). The following graph outlines the forecast operating surplus ratio over the ten years in the financial forecast:



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

- Receipts from customers
- Payments to suppliers and employees
- Interest Revenue; and
- Borrowing Costs.

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

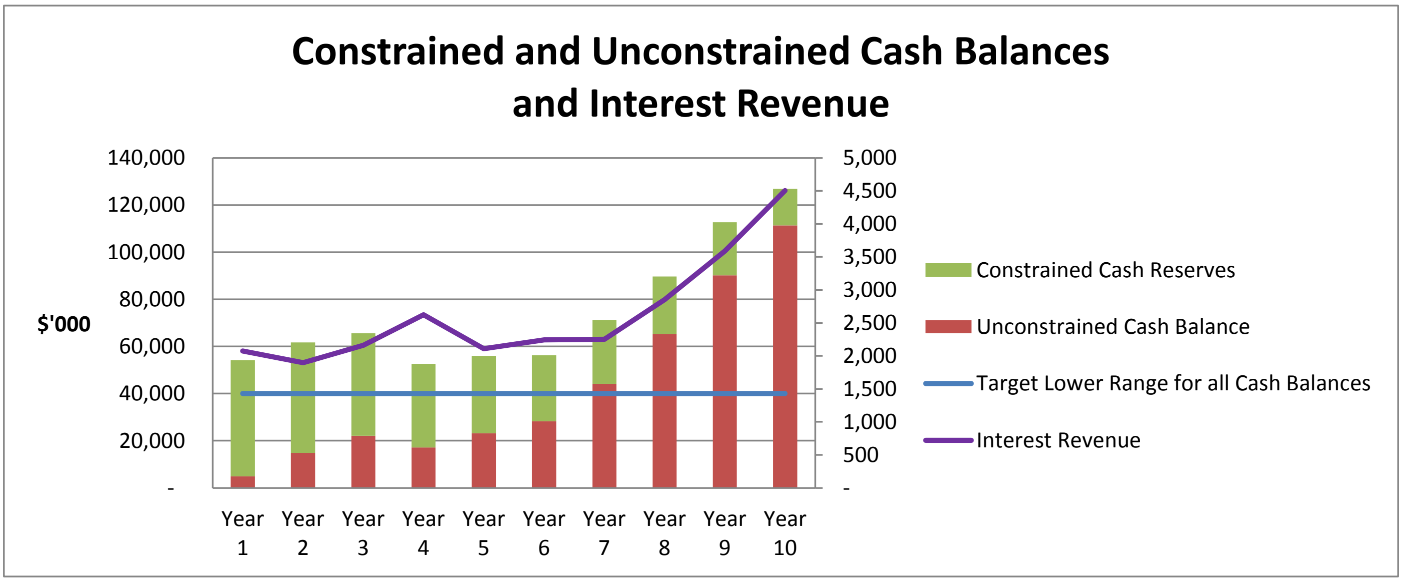


6. Investment Management
6.1 Background

Council has recently taken a conservative approach with respect to the community's cash balances. During the annual review of this strategy, Council considers its risk appetite and policy position with respect to investment of surplus funds. To maximise returns on investments, officers invest or withdraw funds on a daily basis to keep minimal balances in the transactional account. The performance of Council's investment account is reported to the community on a monthly basis and is regularly reviewed to ensure opportunities are maximised and risks are minimised.

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

Traditionally, the main source of interest revenue resulting from the investment of cash balances has been through the Queensland Treasury Corporation (QTC). The following chart provides an analysis of the projected interest revenue over the life of the Strategy and available cash balances that those returns are based on. The total cash balance is broken down into constrained (reserves) amounts with the balance being unconstrained.



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

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

6.2 Investment Management Policy Statement

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

6.3 Investment Management Guidelines

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; and
- 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.

6.4 Key Risks, Issues and Mitigation Strategies

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

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

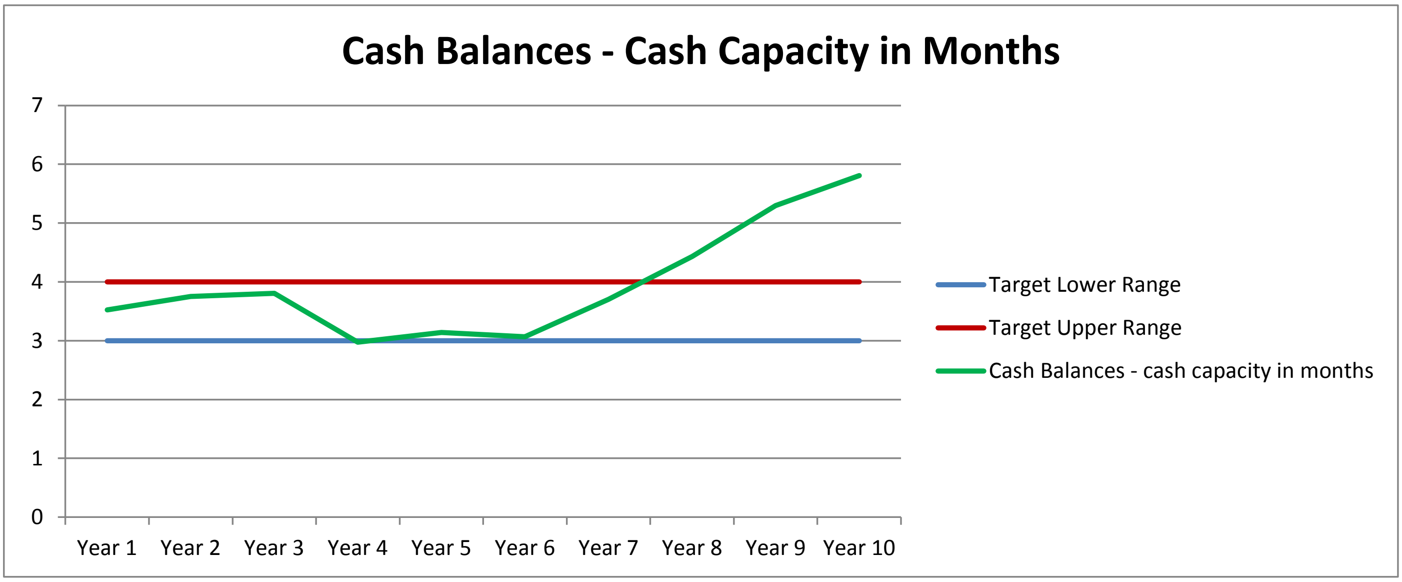
Risk	Likelihood	Consequence	Rating
Interest rates significantly below benchmark resulting in lower returns	Unlikely	Low	**Low**
Constrained cash reserve balances exceed cash balances at the end of a financial year	Possible	Low	**Medium**
Council's net debt position deteriorates as cash balances reduce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

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

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

- Exploration of commercial revenue streams as mentioned in the revenue management chapter;
- Continued review of investment returns and consideration of options in times of low interest rates – Council's returns on investments consistently exceed the United Bank of Switzerland (UBS) industry benchmark;
- Regular reviews of constrained cash reserves balances and recommendations to Council to utilise constrained funds or extinguish the reserves as appropriate; and
- Continued support organisation wide to review funds held in trust (off balance sheet), managing accordingly (refund where applicable or transfer to Council assets if appropriate and in accordance with legislative requirements).

6.5 Key Performance Information



During the budget 2014-15 development process, Council actively planned to utilise existing cash balances and reserves as opposed to burdening the community with new loans. This utilisation of cash explains the reduction in cash held and cash capacity although the ratio is still met during the life of the financial forecast. Council levies rates on a quarterly basis and this underpins the target of holding three to four months of cash payments to suppliers and employees (including interest expense).

7. Debt Management
7.1 Background

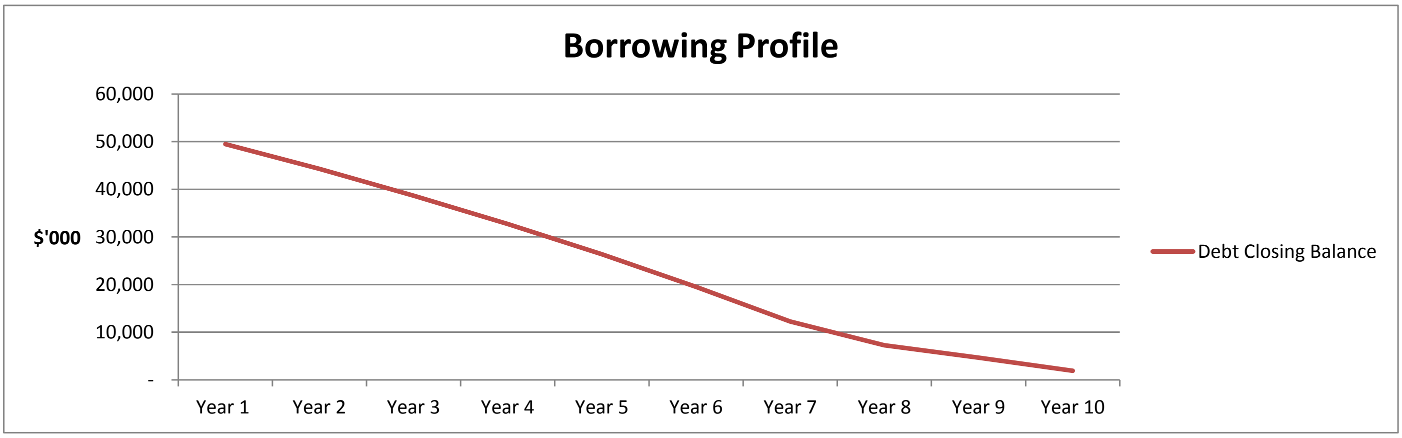
Council borrows from Queensland Treasury Corporation for works in one or more of the following three areas:

- Risk Management;
- Asset Management; and
- Intergenerational projects (projects with associated assets of 25 years or more).

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

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

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



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

- Capital project prioritisation in conjunction with Council's Capital Works Prioritisation Policy – due to the requirement to be able to identify capital projects that have the ability to be debt funded;
- Net debt position – Council has adopted the policy position to utilise cash balances and constrained cash reserves where applicable and appropriate although is mindful of the impacts on the net debt position.
- Interest risk exposure – due to the requirement to minimise exposure to interest rate fluctuations; and
- Only borrowing when necessary – Council has no new borrowings forecast in the life of the strategy due to healthy cash balances and the desire to utilise constrained cash reserves over debt. Council frequently reviews its borrowing requirements and can change this policy position to suit business and community needs in line with the borrowing application timeframes of the Department of Local Government, Community Recovery and Resilience.

7.2 Debt Management 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.

7.3 Debt Management Policy Guidelines

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

- Actual borrowings are subject to the maintenance of approved financial ratios and targets;
- Borrow only where the interest and debt principal repayments can be serviced;
- Borrowings will only be for capital works, never recurrent expenditure;
- Effectively manage its risks, and ensure risks undertaken are reasonable and necessary;
- Effectively manage its exposure to unfavourable interest rate changes;
- Council will continue to underpin debt with specific jobs and work programmes that have been undertaken in the same financial year and will not use debt for general funding purposes; and
- Regularly engage QTC for independent advice on financial sustainability.

7.4 Key Risks, Issues and Mitigation Strategies

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

Opportunity	Likelihood	Consequence	Rating
Improved processes around financing of capital projects results in optimisaton of borrowings	Likely	Medium	**High**
Annual prepayments continue indefinitely to reduce interest expense without triggering market value realisation costs	Likely	Low	**Medium**

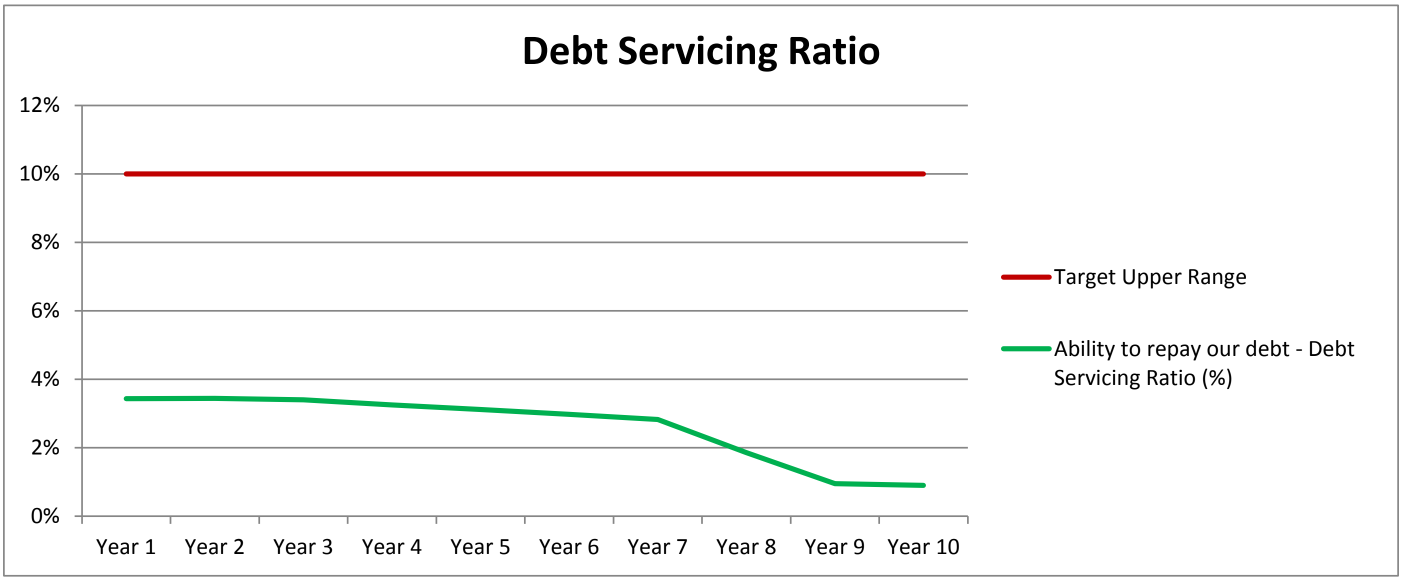
Risk	Likelihood	Consequence	Rating
Interest rates increase significantly over the ten years and future loans cost significantly more	Possible	Medium	**Medium**
Net debt turns unfavourable due to cash balances being utilised faster than debt is repaid	Likely	Low	**Medium**
Council establishes a risk appetite to extinguish debt before the end of the loan term generating a market value realisation cost	Unlikely	Low	**Low**
Reduced ability to repay borrowing costs and early repayment of debt	Unlikely	Low	**Low**

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

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

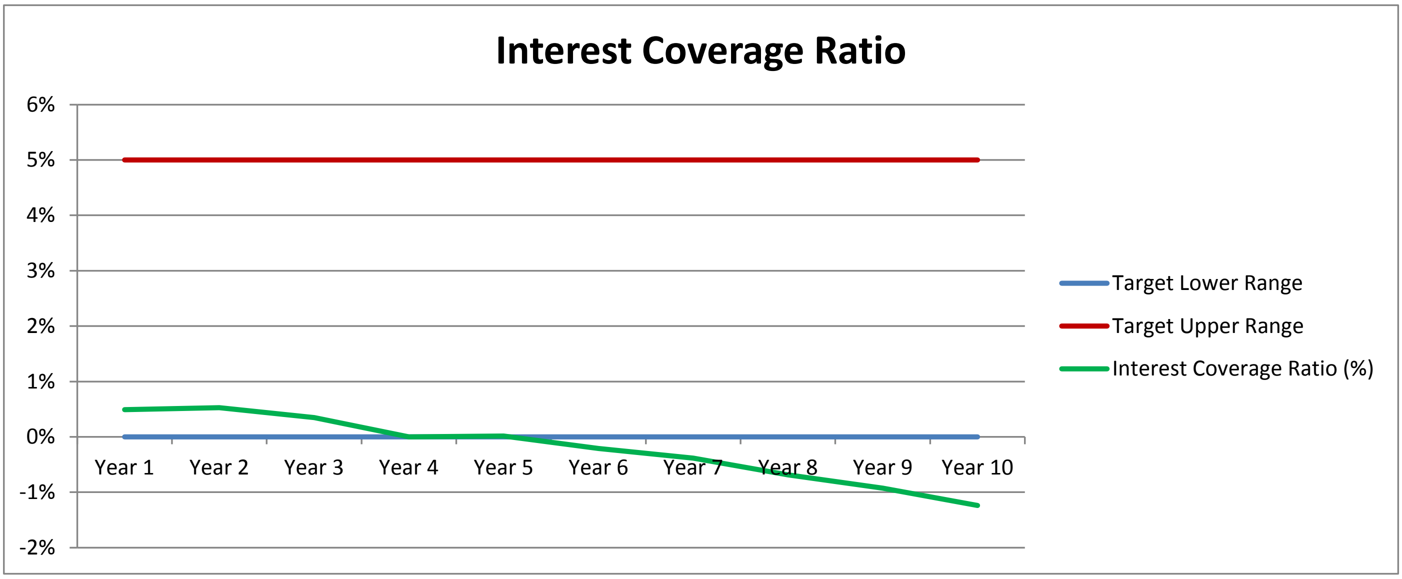
- Council will review its ten year capital programme simultaneously to its annual review of the financial strategy. The ten year capital programme will align to the requirements of the Capital Works Prioritisation Policy and the long-term financial forecast will then determine whether borrowing is required for jobs either of an risk management, asset management or intergenerational nature;
- Further consideration will be given to capitalise interest expense – identification of qualifying assets; and
- Council will continue to work with QTC and request credit/sustainability reviews or similar where practicable to ensure current budgeting, forecasting and financing assumptions and parameters are reasonable.

7.5 Key Performance Information

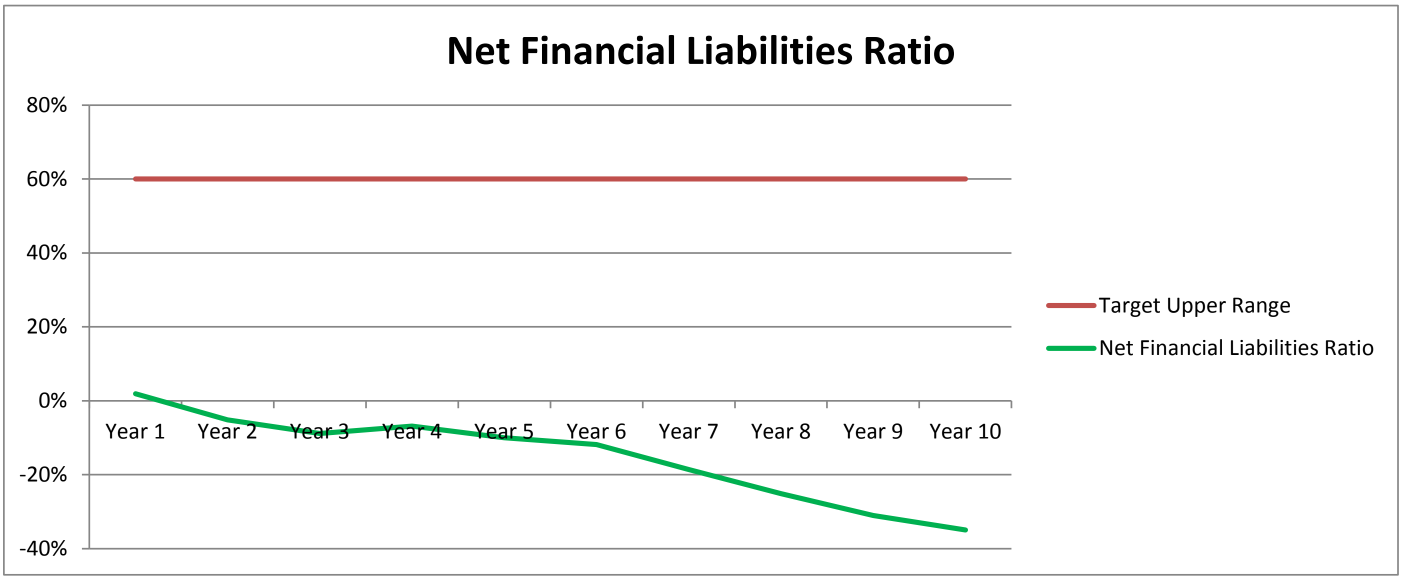


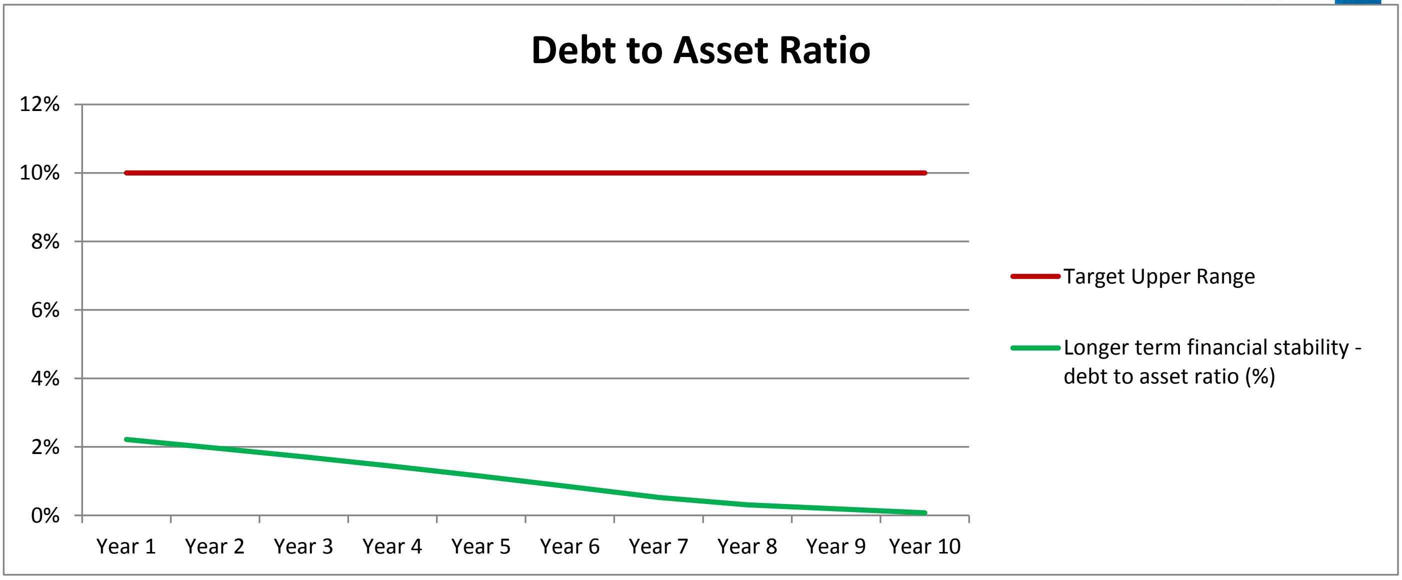
The above graph illustrates Council can clearly cover the principal and interest payments associated with borrowings. In recent years, Council has utilised surplus cash as a preference over increasing liabilities on the community's balance sheet.

The interest coverage ratio is a measure that outlines the percentage of recurrent (operating revenue) that is utilised for net interest. Due to high cash balances and low debt levels, in recent times Council has reported a negative interest coverage ratio which is still favourable even though it is outside the target range.



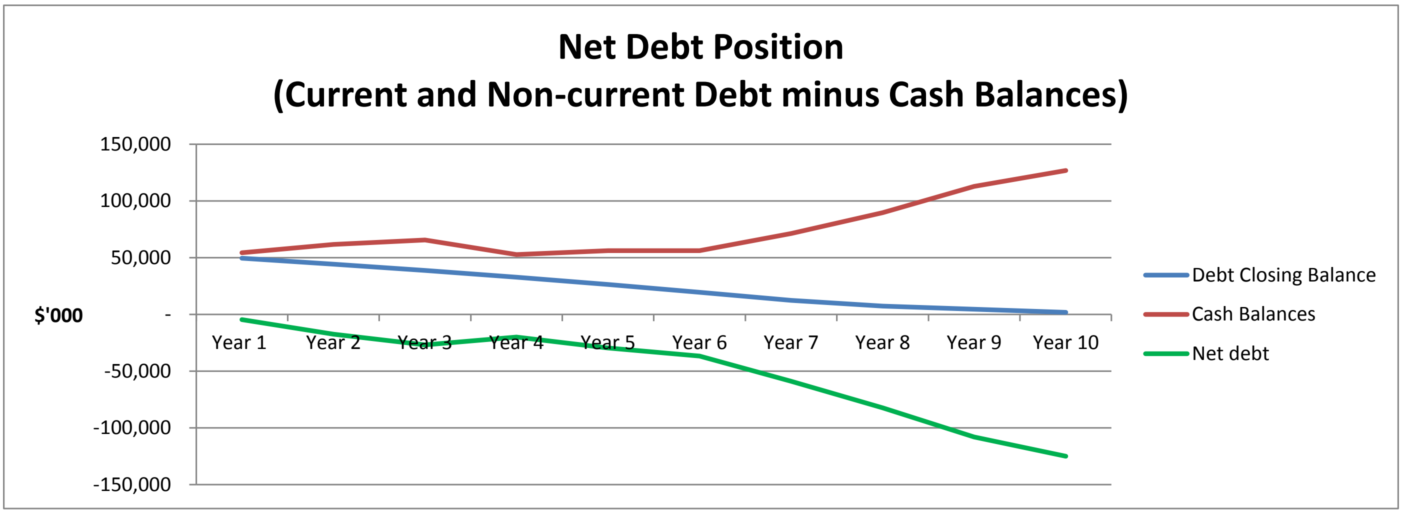
The following chart evidences Council's ability to fund its net financial liabilities from recurrent revenues. Council's balance sheet is very healthy with respect to working capital (current assets – current liabilities) as seen in an earlier chapter. The net financial liabilities ratio also considers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





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

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



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*. The long-term financial forecast is revised during October and November for adoption in December. This timeframe ensures the subsequent budget is developed in line with the newly adopted assumptions, parameters and indices. In other words, the long-term financial strategy is implemented for year one through the annual budget development process. Additionally, Council reviews the long-term financial forecast in the lead up to each annual budget adoption to ensure the key performance indicators and measures of sustainability are still within acceptable levels prior to budget adoption.

8.2 Implementation and Linkage

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

- Corporate Plan;
- Long Term Asset and Service Management Plans;
- Annual Budgets;
- Operational Plans;
- Financial Policies; and
- Ten Year Capital Programme.

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 programmes 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; and

- By adhering to a sustainable borrowing policy which may see increases in affordable borrowings over the medium-term aimed at supporting capital spending in accordance with the Strategy objectives.

8.3 Implementation Control and Issues

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

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

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

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

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

9. Commercial Opportunities
9.1 Background

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

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

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

- *The determination of the standard and quality of each business activity required based upon community/customer expectations and achieving best value for money irrespective of whether the service is delivered by an internal or external provider.*

- *By concentrating upon outcomes rather than processes, service specification is likely to encourage innovation and new solutions to meeting the needs and expectations of the community and customers.*

9.2 Policies associated with Commercial Businesses

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

- Dividend Policy – Business Activities;
- Competitive Neutrality Complaint Process; and
- Community Service Obligation Policy.

Industry specific policies include but are not limited to:

- Application of Water Charges;
- Application of Wastewater Charges; and
- Trade Waste Policy.

9.3 Existing Commercial Opportunities

Council currently has two commercial business units, namely

- Redland Water and
- RedWaste.

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

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

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

9.4 Possible Future Commercial Opportunities

In accordance with our revenue policy, we continue to look for opportunities that reduce the price increases on residents through general rates. In the 2014-15 financial year, two main opportunities are being considered and progressed when appropriate, namely

- Establishment of a corporate entity for land dealings; and
- Priority Development Areas (PDAs) in Cleveland and Redland Bay.

On 26 November 2014, Council resolved to establish a corporate entity which is 100% owned by Redland City Council, with the goal of predominately being in the business of selling and developing (jointly or solely) land. Other South East Queensland Councils participate in similar commercial opportunities and we have consulted with some to consider for best practise, opportunities and risks. Whilst this is still in the early stages of consideration, some risks and opportunities are outlined in the next section.

With respect to the Priority Development Areas in Cleveland and Redland Bay, the Walker Group has been appointed the preferred partner for both areas. Both Cleveland (Toondah Harbour) and Redland Bay (Weinam Creek) were designated Priority Development Areas by the Queensland Government with the desired outcome to transport, tourism and businesses within Redland City. The full details are still being progressed although the increased revenue streams for Redland City Council have conservatively been estimated in the outer years of the long-term financial forecast through an increase in rate growth from 0.5% to 1.0%.

9.5 Key Risks, Issues and Mitigation Strategies

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

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

10. Appendices

10.1 Long-Term Financial Forecast Statements

LONG-TERM FINANCIAL FORECAST - PROJECTED OPERATING STATEMENT	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
REVENUE										
Rates charges	83,899	86,510	89,203	91,980	94,844	98,762	102,842	107,090	111,514	116,120
Utility charges	129,353	134,202	139,243	144,483	149,933	155,872	162,058	168,501	182,754	184,607
Less remissions & rebates	(4,093)	(4,221)	(4,352)	(4,487)	(4,627)	(4,818)	(5,017)	(5,225)	(5,440)	(5,665)
Fees & charges	11,383	12,042	12,739	13,510	14,327	15,194	16,190	17,251	18,382	19,587
Subsidies & grants - operating	7,423	7,654	7,893	8,138	8,392	8,738	9,099	9,475	9,866	10,274
Contributions - operating	268	276	285	294	303	316	329	342	356	371
Interest	2,075	1,898	2,162	2,625	2,107	2,242	2,250	2,853	3,587	4,508
Gain on sale of developed land	3,499	6,883	4,840	1,637	0	0	0	0	0	0
Other revenue	7,104	7,299	7,499	7,724	7,955	8,194	8,481	8,778	9,085	9,403
	240,912	**252,544**	**259,511**	**265,904**	**273,234**	**284,499**	**296,231**	**309,064**	**330,104**	**339,205**
EXPENSES										
Employee costs	79,291	81,274	83,669	86,136	88,675	91,290	93,982	96,753	99,606	102,291
Goods and services	104,156	108,705	120,363	121,961	124,717	128,750	137,572	146,922	156,834	161,403
Finance Costs - Other	338	348	357	368	379	390	404	418	433	448
Other Expenditure	325	335	348	362	377	392	410	428	448	468
Net Internal Costs	(1,020)	(1,053)	(1,093)	(1,137)	(1,183)	(1,231)	(1,286)	(1,345)	(1,406)	(1,469)
	183,091	**189,609**	**203,645**	**207,689**	**212,965**	**219,591**	**231,081**	**243,176**	**255,915**	**263,141**
Earnings before Interest, tax and depreciation (EBITD)	**57,821**	**62,935**	**55,866**	**58,214**	**60,269**	**64,908**	**65,150**	**65,888**	**74,189**	**76,064**
Interest Expense	3,255	3,231	3,064	2,622	2,152	1,650	1,115	736	523	299
Depreciation	47,878	47,605	47,777	48,329	48,465	48,727	48,652	48,641	48,726	49,138
Operating Surplus/(Deficit)	**6,688**	**12,100**	**5,025**	**7,263**	**9,652**	**14,531**	**15,383**	**16,511**	**24,941**	**26,626**

LONG-TERM FINANCIAL FORECAST - PROJECTED CAPITAL FUNDING STATEMENT

	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
CAPITAL REVENUE										
Capital Contributions and Donations	5,914	5,390	5,390	5,390	4,900	4,900	4,900	4,900	4,900	3,500
Capital Grants and Subsidies	5,452	4,257	3,891	4,349	2,982	5,633	3,304	3,431	4,249	2,057
Proceeds on Disposal of Non Current Assets	2,083	1,935	1,937	1,618	2,287	2,337	950	1,812	1,175	1,175
Capital Transfers (To)From Reserves	(734)	1,192	2,009	3,392	(381)	(76)	(841)	895	(1,202)	318
Non Cash Contributions	3,314	3,405	3,498	3,603	3,711	3,822	3,956	4,095	4,238	4,386
New Loans	0	0	0	0	0	0	0	0	0	0
Funding from General Revenue	61,793	46,030	46,583	62,813	55,899	63,759	50,609	46,709	52,729	62,166
Total Capital Revenue	**77,821**	**62,208**	**63,307**	**81,164**	**69,398**	**80,375**	**62,879**	**61,841**	**66,089**	**73,602**
CAPITAL APPLICATIONS										
Contributed Assets	3,314	3,405	3,498	3,603	3,711	3,822	3,956	4,095	4,238	4,386
Capitalised Goods & Services	64,115	49,345	49,943	65,945	54,633	64,241	47,583	48,575	51,237	58,459
Capitalised Employee Costs	5,492	4,227	4,278	5,648	4,679	5,502	4,076	4,161	8,000	8,000
Loan Redemption	4,900	5,232	5,588	5,968	6,374	6,809	7,264	5,011	2,614	2,757
Total Capital Applications	**77,821**	**62,208**	**63,307**	**81,164**	**69,398**	**80,375**	**62,879**	**61,841**	**66,089**	**73,602**
OTHER BUDGETED ITEMS										
Transfers to Reserve	(9,597)	(8,747)	(8,747)	(8,747)	(7,952)	(7,952)	(7,952)	(7,952)	(7,952)	(5,680)
Transfer from Operating Reserves	12,947	9,964	10,085	13,316	11,032	12,972	9,608	9,809	11,018	12,361
WDV of Assets Disposed	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)	(1,109)

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF FINANCIAL POSITION

	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
CURRENT ASSETS										
Cash & Investments	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690	126,869
Accounts Receivable	39,717	39,915	40,115	40,315	40,517	40,922	41,331	41,745	42,162	42,584
Inventories	844	844	844	844	844	844	844	844	844	844
Prepaid Expenses	1,186	1,219	1,252	1,290	1,328	1,368	1,416	1,466	1,517	1,570
Assets - Held for Sale	354	354	354	354	354	354	354	354	354	354
Total Current Assets	**96,332**	**104,094**	**108,192**	**95,489**	**99,083**	**99,747**	**115,258**	**134,095**	**157,567**	**172,220**
NON CURRENT ASSETS										
Property, Plant and Equipment	2,131,574	2,139,837	2,148,669	2,174,428	2,187,878	2,211,608	2,217,462	2,224,543	2,238,183	2,258,781
Total Non-Current Assets	**2,131,574**	**2,139,837**	**2,148,669**	**2,174,428**	**2,187,878**	**2,211,608**	**2,217,462**	**2,224,543**	**2,238,183**	**2,258,781**
TOTAL ASSETS	**2,227,906**	**2,243,931**	**2,256,861**	**2,269,917**	**2,286,961**	**2,311,356**	**2,332,720**	**2,358,638**	**2,395,750**	**2,431,002**
CURRENT LIABILITIES										
Accounts Payable	19,431	19,963	20,510	21,126	21,759	22,412	23,197	24,009	24,849	25,719
Current Employee Provisions	9,731	9,974	10,273	10,581	10,899	11,226	11,563	11,909	12,267	12,635
Current Loans	5,232	5,588	5,968	6,374	6,809	7,264	5,011	2,614	2,757	1,878
Current Landfill Rehabilitation Provisions	6,445	1,913	3,981	929	865	863	860	859	863	863
Other Liabilities	1,318	1,354	1,391	1,433	1,476	1,520	1,573	1,628	1,685	1,744
Total Current Liabilities	**42,157**	**38,792**	**42,124**	**40,442**	**41,808**	**43,285**	**42,203**	**41,019**	**42,421**	**42,839**
NON-CURRENT LIABILITIES										
Non-Current Loans	44,263	38,675	32,707	26,333	19,524	12,260	7,249	4,635	1,878	0
Non-Current Employee Provisions	2,013	2,063	2,115	2,178	2,244	2,311	2,380	2,452	2,525	2,601
Non-Current Landfill Rehabilitation Provisions	11,996	10,947	7,829	7,763	7,762	7,762	7,766	7,770	7,770	7,770
Other Liabilities	478	478	478	478	478	478	478	478	478	478
Total Non-Current Liabilities	**58,749**	**52,163**	**43,128**	**36,752**	**30,007**	**22,811**	**17,873**	**15,335**	**12,651**	**10,850**
TOTAL LIABILITIES	**100,906**	**90,954**	**85,252**	**77,195**	**71,815**	**66,096**	**60,076**	**56,354**	**55,072**	**53,688**
NET ASSETS	**2,127,000**	**2,152,977**	**2,171,609**	**2,192,722**	**2,215,146**	**2,245,260**	**2,272,644**	**2,302,284**	**2,340,677**	**2,377,313**
COMMUNITY EQUITY										
Retained Earnings Account	2,077,712	2,106,099	2,128,077	2,157,151	2,182,273	2,217,331	2,245,531	2,277,922	2,318,179	2,361,814
Cash Reserves	49,287	46,878	43,532	35,571	32,872	27,928	27,113	24,362	22,498	15,499
TOTAL COMMUNITY EQUITY	**2,127,000**	**2,152,977**	**2,171,609**	**2,192,722**	**2,215,146**	**2,245,260**	**2,272,644**	**2,302,284**	**2,340,677**	**2,377,313**

LONG-TERM FINANCIAL FORECAST - PROJECTED STATEMENT OF CASH FLOWS

	Year 1 2015-16 $'000	Year 2 2016-17 $'000	Year 3 2017-18 $'000	Year 4 2018-19 $'000	Year 5 2019-20 $'000	Year 6 2020-21 $'000	Year 7 2021-22 $'000	Year 8 2022-23 $'000	Year 9 2023-24 $'000	Year 10 2024-25 $'000
RECEIPTS										
Rates Charges	79,730	82,214	84,776	87,417	90,141	93,791	97,670	101,710	105,920	110,297
Utility Charges	129,231	134,079	139,119	144,358	149,807	155,620	161,803	168,243	182,490	184,343
Fees & charges	11,383	12,042	12,739	13,510	14,327	15,194	16,190	17,251	18,382	19,587
Grants and subsidies	7,423	7,654	7,893	8,138	8,392	8,738	9,099	9,475	9,866	10,274
Contributions	268	276	285	294	303	316	329	342	356	371
Gain on sale of developed land	3,499	6,883	4,840	1,637	0	0	0	0	0	0
Other revenue	7,104	7,299	7,499	7,724	7,955	8,194	8,481	8,778	9,085	9,403
	238,639	**250,448**	**257,150**	**263,078**	**270,925**	**281,852**	**293,571**	**305,798**	**326,099**	**334,275**
PAYMENTS										
Employee costs	(79,054)	(80,980)	(83,319)	(85,764)	(88,293)	(90,896)	(93,575)	(96,335)	(99,175)	(101,847)
Materials & services	(101,751)	(112,698)	(119,769)	(123,322)	(122,961)	(126,863)	(135,495)	(144,756)	(154,578)	(159,058)
Other expenses	(325)	(335)	(348)	(362)	(377)	(392)	(410)	(428)	(448)	(468)
	(181,130)	**(194,014)**	**(203,436)**	**(209,448)**	**(211,630)**	**(218,151)**	**(229,481)**	**(241,519)**	**(254,201)**	**(261,373)**
Interest revenue	2,075	1,898	2,162	2,625	2,107	2,242	2,250	2,853	3,587	4,508
Finance costs	(3,593)	(3,579)	(3,421)	(2,990)	(2,531)	(2,040)	(1,519)	(1,154)	(956)	(747)
NET CASH FLOW - OPERATIONS	**55,991**	**54,753**	**52,456**	**53,264**	**58,871**	**63,903**	**64,822**	**65,978**	**74,530**	**76,663**
INVESTING ACTIVITIES										
Payments - Property, Plant & Equipment	(69,607)	(53,572)	(54,221)	(71,593)	(59,313)	(69,744)	(51,659)	(52,736)	(59,237)	(66,459)
Proceeds - Capital subsidies & grants and Contributions	11,366	9,647	9,281	9,739	7,882	10,533	8,204	8,331	9,149	5,557
Proceeds - disposal non current assets	2,083	1,935	1,937	1,618	2,287	2,337	950	1,812	1,175	1,175
NET CASH FLOW - INVESTING ACTIVITIES	**(56,159)**	**(41,990)**	**(43,003)**	**(60,237)**	**(49,144)**	**(56,874)**	**(42,504)**	**(42,593)**	**(48,914)**	**(59,727)**
CASH FLOWS FROM FINANCING ACTIVITIES										
Proceeds from borrowing - QTC	0	0	0	0	0	0	0	0	0	0
Repayment of borrowing - QTC	(4,900)	(5,232)	(5,588)	(5,968)	(6,374)	(6,809)	(7,264)	(5,011)	(2,614)	(2,757)
NET CASH FLOW - FINANCING ACTIVITIES	**(4,900)**	**(5,232)**	**(5,588)**	**(5,968)**	**(6,374)**	**(6,809)**	**(7,264)**	**(5,011)**	**(2,614)**	**(2,757)**
NET INCREASE (DECREASE) IN CASH HELD	**(5,067)**	**7,531**	**3,864**	**(12,940)**	**3,353**	**220**	**15,053**	**18,374**	**23,003**	**14,179**
Cash at the start of the financial year.	59,299	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690
CASH AT END OF FINANCIAL YEAR	**54,232**	**61,763**	**65,627**	**52,687**	**56,040**	**56,260**	**71,313**	**89,687**	**112,690**	**126,869**

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

Redland City Council	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Level of dependence on General Rate Revenue (Excludes Utility Revenues) - Threshold set < 37.5%	33.1%	32.6%	32.7%	32.9%	33.0%	33.0%	33.0%	33.0%	32.1%	32.6%
Ability to pay our bills - Current Ratio Target between 1.1 and 4.1	2.3	2.7	2.6	2.4	2.4	2.3	2.7	3.3	3.7	4.0
Ability to repay our debt - Debt Servicing Ratio (%) Target less than or equal to 10%	3.4%	3.4%	3.4%	3.3%	3.1%	3.0%	2.8%	1.9%	1.0%	0.9%
Cash Balance - $ 000s	54,232	61,763	65,627	52,687	56,040	56,260	71,313	89,687	112,690	126,869
Cash Balances - cash capacity in months Target 3 to 4 months	3.5	3.8	3.8	3.0	3.1	3.1	3.7	4.4	5.3	5.8
Longer term financial stability - debt to asset ratio (%) Target less than or equal to 10%	2.2%	2.0%	1.7%	1.4%	1.2%	0.8%	0.5%	0.3%	0.2%	0.1%
Operating Performance Target greater than or equal to 20%	23.3%	21.7%	20.2%	20.0%	21.6%	22.5%	21.9%	21.4%	22.6%	22.6%
Operating Surplus/(Deficit)	6,688	12,100	5,025	7,263	9,652	14,531	15,383	16,511	24,941	26,626
Operating Surplus Ratio Target between 0% and 10% (on average over the long-term)	2.8%	4.8%	1.9%	2.7%	3.5%	5.1%	5.2%	5.3%	7.6%	7.8%
Net Financial Liabilities Ratio Less than 60% (on average over the long-term)*	1.9%	-5.2%	-8.8%	-6.9%	-10.0%	-11.8%	-18.6%	-25.2%	-31.0%	-34.9%
Interest Coverage Ratio Between 0% and 5%**	0.5%	0.5%	0.3%	0.0%	0.0%	-0.2%	-0.4%	-0.7%	-0.9%	-1.2%
Asset Sustainability Ratio (Infrastructure Assets Only) Greater than 90% (on average over the long-term)	52.4%	54.4%	45.1%	41.4%	37.0%	45.6%	45.8%	36.5%	36.2%	74.2%
Asset Consumption Ratio (Infrastructure Assets Only) Between 40% and 80%	67.8%	67.1%	66.2%	65.2%	64.5%	63.3%	61.8%	60.4%	58.9%	58.6%

*The Net Financial Liabilities Ratio exceeds the target range when current assets are greater than total liabilities (and the ratio is negative)

**The Interest Coverage Ratio exceeds the target range when interest revenue is greater than interest expense (and the ratio is a negative)

10.3 Glossary – Key Performance Indicators

Definition of Ratios

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

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

6 MEETING CLOSURE

There being no further business, the Mayor declared the meeting closed at 1.57pm.

Signature of Chairperson: ____________________________

Confirmation date: ____________________________