



Financial Sustainability Policy

Effective Date: May 2023

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1. Purpose and objectives

As per the Section 9(2) of the Local Government Act 2020 (LGA 2020), Council recognises that the ongoing financial viability of the Council is to be ensured. Moreover, as per the Section 101 and 102 of the Act:

- Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans
- Council must monitor and manage prudently its risks in relation to its financial viability
- Council financial policies must seek to provide stability and predictability in the financial impact on the municipal community

The Financial Sustainability Policy provides parameters for Council to operate in a financially sustainable manner whilst providing stability and predictability in the financial impact on the municipal community.

The Financial Sustainability ensures that Council has regards to its financial risks and viability while adhering to the statutory requirements in the following aspect:

- a. Asset and capital management
- b. Borrowing and liquidity risk
- c. Surplus and deficits
- d. Rates and other revenue
- e. Expenditure

The objectives of the Financial Sustainability Policy are:

- a. to ensure Council's ongoing financial sustainability
- b. to ensure Council manage and monitor its risks prudently
- c. to ensure Council provides financial stability and predictability in the financial impact on the municipal community

2. Scope

The Policy

- a. applies to Council when considering and determining the budget and long-term financial plan
- b. applies to all Council employees who make decisions or provide advice regarding assets and capital management, borrowing and liquidity risk, surplus and deficits, rates and other revenue, capital investment and any other expenditure
- c. will be adhered to in developing Council's budget and long term financial plan

3. Definitions

Adjusted Underlying Revenue means total income other than:

- Non-recurrent capital grants to fund capital expenditure
- Non-monetary asset contributions
- Contributions to fund capital expenditure from other sources other than those referred to above

Adjusted Underlying Surplus (or Deficit) means adjusted underlying revenue less total expenditure

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

Asset Renewal Expenditure means expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability

Asset Upgrade Expenditure means expenditure that:

- a. enhances an existing asset to provide a higher level of service; or
- b. increases the life of the asset beyond its original life;

ASX means Australian Stock Exchange.

Beneficial Enterprises:

In alignment with Section 110 Beneficial Enterprises of the LGA 2020, for the purpose of performing its role, a Council may participate in any of the following beneficial enterprises:

- a. become a member of a corporation;
- b. participate in the formation of a corporation, trust or other body;
- c. acquire shares in a corporation, trust or other body;
- d. enter into a partnership or joint venture with any other person or body.

Capital Improved Value means market value of a property and is measured at the end of the year and includes all valuation adjustments (e.g. supplementary valuations)

Current Assets are assets that the council expects to recover or realise within the following financial year

Current Liabilities means obligations or liabilities that are due to be settled, or paid, within one year

EBITDA means earnings before interest, tax, depreciation and amortisation

ELT means Executive Leadership Team

Equity Investment: Investment in shares/equity investments can either be listed or unlisted. Listed equity investments are publicly traded on an exchange. Unlike unlisted equity investments, listed equity offers greater liquidity and transparency of information and hence makes for a more attractive investment option. The Council commits to not directly investing in any fossil fuel and gaming companies into the future

Interest Bearing Loans and Borrowings means a loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged and collected on unpaid balances

Interest and Principal Repayments means repayments made on principal amounts and/or interest from interest bearing loans or borrowings, where the debt is expressed as a principal amount and interest is calculated, charged and collected on unpaid balances

LGPRF means Local Government Performance Reporting Framework

New Asset Expenditure means expenditure that creates a new asset that provides a service that does not currently exist;

Non-current Liabilities means financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period

Non-recurrent Grant means a grant obtained on the condition that it be expended in a specified manner and not expected to be received again during the period covered by the Financial Plan

NPV means Net Present Value

Number of property assessments means the number of rateable properties as at 1 July

Other investment approved by the Minister

This can include any other asset classes approved by the Minister (if approval is needed for the investment)

Own-Source Revenue means adjusted underlying revenue excluding revenue which is not under the control of Council (including government grants)

PPSA refers to the Personal Property Securities Act 2009 (Cth)

Property

Direct property investments largely include retail properties and car parks which provide rental income and capital growth but which can be illiquid.

Properties that are not listed in the Council's Investment Property list (as maintained in accordance IAS 40 Investment Property), do not form part of the capital investment portfolio. The property should generate an income and may experience capital growth

Population means the resident population of the municipal district estimated by Council

Rate Revenue is revenue from general rates, municipal charges, service rates and service charges (e.g. garbage, recycling and organic charges) levied on rateable properties

Recurrent Grant means operating or capital grant other than a non-recurrent grant

Restricted Cash means cash and cash equivalents and financial assets within the meaning of the AAS that are not available for use other than for the purpose for which it is restricted and includes cash that will be used to fund carry forward capital works from the previous financial year. Items which are considered to be restricted under the definition are:

- trust funds and deposits
- statutory or non-discretionary reserves
- cash held to fund carry forward capital works
- conditional grants unspent

Term deposits with an original maturity of greater than 90 days (i.e. other financial assets) are also considered to be restricted under this definition

Security Interest means any:

- a. security interest as defined in section 12(1) or section 12(2) of the PPSA;
- b. security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement;
- c. right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off;
- d. right that a person (other than the owner) has to remove something from land, easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or
- e. third party right or interest or any right arising as a consequence of the enforcement of a judgment, or any agreement to create any of them or allow them to exist.

TCV means the Treasury Corporation of Victoria.

Unrestricted Cash means cash and cash equivalents other than Restricted Cash

VAGO means Victorian Auditor General Office

Value of Infrastructure means written down value of infrastructure assets per the financial statements. Infrastructure assets are defined as all property, plant, equipment and infrastructure assets, excluding land.

4. Financial sustainability policy statements

For the purpose of financial sustainability, if Council is considering discretionary projects (e.g. projects other than sealed road resurfacing, unsealed road resheeting) and new assets/asset renewal/upgrade that will yield in non-strategic assets, Council will assess the financial viability of the proposed projects (by way of including a financial assessment within the business cases) to ensure the Council will still meet its financial sustainability policy while delivering community benefits.

Policy Statements:

Section 101 of LGA 2020, Financial Management Principles states that

Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans

The following are ratios that are applied to measure the Council's financial sustainability, Council will aim to operate within the expected range of:

Efficiency

- Expenses per Property Assessment (\$2000 - \$5000)
- Average rate per Property Assessment (above \$2000)

Liquidity

- Current assets compared to current liabilities (80 to 200%)
- Unrestricted cash compared to current liabilities (10 to 300%)

Obligations

- Loans and Borrowings compared to rates (0-70%)
- Loans and Borrowings repayment to rates (0-20%)
- Non-current Liabilities compared to own source revenue (2-70%)
- Asset renewal and upgrade compared to depreciation (40 to 160%)
- TCV Indebtedness (0-60%)
- TCV Interest Coverage Ratio ($\geq 200\%$)
- Internal financing ratio ($\geq 75\%$)

Operating Position

- Adjusted underlying surplus (or deficit) (-20 to 20%)

Stability

- Rates compared to adjusted underlying revenue (30 to 80%)
- Rates compared to property values (0.15 – 0.75%)

Sustainable Capacity

- Expenses per head of municipal population (\$800 to \$4000)
- Infrastructure per head of population (\$3,000 to \$40,000)
- Own-source revenue per head of population of at least \$2,000
- Recurrent grants per head of population of at least \$100

Council undertakes that TCV covenants (TCV Indebtedness and TCV Interest Coverage Ratio) must be complied with at all times as per the TCV Loan Agreement. In the event of default, in addition to any other rights provided by law, the outstanding moneys shall become immediately due and payable to TCV, and TCV may exercise any or all of its rights,

remedies, powers or discretions under the Security Interest granted under the TCV Loan Agreement, without the need for any demand or notice to be given by TCV.

Breach of the above ratios indicate that Council is at risk of not operating in a financially sustainable manner. Council undertakes that it will rectify breaches of the ratios within a reasonable timeframe.

As part of the Council's Financial Sustainability, Council recognises that borrowing for discretionary capital projects can be used as a source of funding to benefit present and future ratepayers. To provide the appropriate parameters aligned with LGA 2020 Section 101 Financial Management Principles, Council has developed the following borrowing principles:

- a. Council will not borrow to fund operating expenditure (other than for short term working capital needs as cash flows dictate), recurrent or regular capital works, and non-discretionary capital investment. These types of expenditure will be funded from operating revenue streams.
- b. Borrowings used to finance Capital Investment for Capital Discretionary and Strategic Purpose will not be drawn down until the commencement of the project and shall include a repayment plan contained in a business case
- c. The term of any loan should not exceed the life of the asset
- d. Council will not borrow to participate in beneficial enterprises where it will make Council's total risk exposure exceeding its total investment
- e. Council will not enter into a lease (as per defined by AASB 16 Lease) where it will make Council breach this policy

To enhance Council's financial viability, reduce reliance on rates income and support Council's effort to achieve Rates to Adjusted Underlying Revenue of maximum 80%, Council aims to improve the performance of its capital investment portfolio and strategic income assets.

Capital investment is defined as investment on Council's strategic assets (excluding placement of any money in accordance with Section 103 Investments of LGA 2020), beneficial enterprises (equity and debt investments), investment property, and other commercial investments/investment partnership.

Capital Investment can be for:

1. Non-Discretionary Purpose
 - a. Mandatory: Investment to assets to meet legislative/regulatory and safety requirements.
 - b. Critical Assets: Existing assets/services which if not continued/maintained in its current state could result in significant disruption to customers, unacceptable business continuity risk, significant maintenance costs above current levels and/or increase operational risks including safety.
 - c. Council Unplanned (Urgent): Assets/services that must be delivered or the Council will face extreme/high reputation risk and damage. The need to invest usually arises in the short term, within the current financial year, as a one-off/emergency response to something. Can only occur if directed/approved by CEO (cannot be at management discretion)
2. Discretionary Purpose
 - a. Transformation: Projects that have significant impact on driving one or more Council Goals/Services. Outcomes may introduce a stable, material new revenue stream (e.g. that contributes 5% or more of current revenue).
 - b. Performance: Assets/services that directly contribute to a higher service standard/outcome. Includes revenue generation; exclude operating budget. Aligned to asset category of new and upgrade.
 - c. Productivity: Assets/services that directly improve efficiency in Council's ways of working. Aligned to asset category of new and upgrade

d. Innovation: Drive both “internal” transformation (streamline, automate for efficiency and growth) and external to meet emerging citizens and business requirements and opportunities.

3. Strategic Purpose

Strategic purpose investment is an investment in beneficial enterprises, investment properties and any other commercial investment/investment partnership that provides a strategic benefit to the Council.

5. Capital investment decision

5.1. The Council adopted this policy to secure a financially sustainable capital investment decision by way of ensuring that:

a. Discretionary and strategic purpose capital investment are based on three objectives:

- i. Being able to achieve an acceptable financial ROI (mandatory)
- ii. To perform its role as a Council as required by s110(1) of LGA 2020 (mandatory)
- iii. To meet the strategic development objectives of the Council (highly desirable)

Any discretionary and strategic purpose capital investment/investment partnership shall be supported with a business case that contains a financial evaluation section.

- b. Operating objectives are to reduce risk through diversification, manage liquidity, and ensure returns are sufficient to meet financial target
- c. If appropriate, seek approval from the Minister to invest in any other manner
- d. Allowing discretionary/strategic purpose capital investment projects to be conducted to deliver return which are assessed on the basis of:
 - i. Commercial returns
 - The hurdle rate is the higher of:
 - 1) Annualised return of the relevant industry indices as listed in the ASX (if no relevant industry indices is available, then the price return of ASX 200 index will be used) for the past 5 to 10 years (depending on the forecasting period). Hurdle rate benchmarks for discretionary projects are specified in Schedule 1; or
 - 2) 150% of 10-year Australian government bond yield; or
 - 3) 5-year simple average of the 10-year Australian government bond yield, plus a 3% risk premium.
 - ii. Positive NPV from discretionary/strategic capital investment projects within the forecast period of 10 years or the useful life of the asset (whichever is applicable)

For the purpose of the financial evaluation of Council's business cases, the assessment framework above must be used.

- e. Affirms its commitment to clean energy, the United Nation's Sustainable Development Goals and climate leadership through its capital investments
- f. Provides for the divestment of capital investment or assets that have reached their maximum potential in achieving return and/or not considered to be of strategic importance
- g. Discretionary and strategic investment are conducted to maintain or improve the Council's outcomes in accordance with its strategic objectives and priorities, while ensuring the strategic and financial benefits outweigh the financial and reputational risks

5.2. The discretionary and strategic capital investment decision must have regard to the circumstances and may also take into account the following matters when exercising the capital investment:

- a. The risk involved in making, and the likely return from, the capital investments having regard to Council's objectives
- b. The desirability of diversifying investments

- c. The need to maintain the real value of the capital or income from capital investment
- d. The risk of capital or income loss or depreciation
- e. The potential for capital appreciation
- f. The length of the proposed capital investment
- g. The costs of making the proposed capital investment

5.3. The capital investment principles (as per s101 of the LGA 2020) require that the Council's:

- a. financial decisions seek to provide stability and predictability in the financial impact on the municipal community
- b. financial risks are monitored and managed prudently having regard to economic circumstances

6. Capital investment guidelines

6.1 Capital Investment Objectives

The Council recognises that risk (i.e. the uncertainty of future events), volatility (i.e. the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of capital investment vehicles. While high levels of risk are to be avoided, the assumption of risk is warranted as long as it is compensated in order to allow the investment managers the opportunity to achieve satisfactory long-term results consistent with the objectives and fiduciary character of the capital investment portfolio. In general, the Council has a low risk appetite for:

- Pursuing a capital investment strategy that puts at high risk the financial sustainability of the Council over the medium-to-long term
- Application of discretionary capital projects that are not planned and executed in a sustainable and prudent manner

Taking these into consideration, the Council's capital investment objectives are to:

- ensure sufficient funds are available when needed to support the purpose and strategic plan of the Council
- have a strong and adaptable balance sheet through optimised use and allocation of capital
- maximise returns while effectively managing risks associated with those investments.

6.2 General Capital Investment Principles and Philosophy

- a. All capital investment must comply with LGA 2020 and the Local Government (Planning and Reporting) Regulations 2020
- b. All capital investment opportunities should be prioritised after taking into consideration the Council's nature of obligations to conduct the capital investment (whether mandatory or non-mandatory capital investment), the strategic value to the Council, the importance of the benefits and the level of risks involved
- c. The standard of prudence (including financial and risks) is to be used by the Council staff. This includes having in place appropriate reporting requirements that ensure the capital investments are being monitored, reviewed and overseen regularly.
- d. All Council staff involved with the capital investment decisions shall follow the Council's appropriate code of conduct and refrain from personal activities that would conflict with the proper execution and management of the Council's capital investments. This includes activities that would impair the staff's ability to make impartial decisions. Any actual, potential or perceived conflict of interest must be disclosed to the Chief Financial Officer.
- e. Any medium or higher complexity (circa >\$5m) discretionary capital investment and strategic investment can be made only if a business case is prepared and the investment is approved by ELT and if required Council in accordance with the Council's delegations framework.

6.3 Any business case for medium or higher complexity (circa >\$5m) discretionary capital investment and strategic investment must include the following:

- a. Details of how the investment aligns with the Council's strategic objectives and priorities
- b. An assessment of the financial benefits and risks, including how the proposed transaction will impact the Council's 10 Year Financial Plan
- c. Financial projections including a detailed cash flow forecast

- In the case of medium or higher complexity (circa >\$5m) discretionary capital investment, the cash flow forecast must include construction costs, any ongoing operating and lifecycle expenses, any related revenue streams and the key assumptions used, including funding and financing costs
- d. In the case of participation in a beneficial enterprise
- the total equity investment that will be provided to the enterprise
 - external valuation justifying the acquisition price (if acquiring an interest in an established entity)
 - the governance structure of the entity including any proposed Board appointments

6.4 Capital Investment Evaluation and Prioritisation

For preparation of the 4 Year Capital Works Program and 10 Year Indicative Capital Works program through the annual budget cycle and capital project requests received outside this cycle, evaluated projects are to be prioritised against principles defined under this policy or by Council resolution.

Requests are evaluated against the following principles:

- Capital investment for Non-Discretionary purpose will be prioritised
- Capital investment for existing and new assets will be evaluated for their whole-of-life costs, that the projects/assets are an effective spend and use of funds for the outcomes being achieved and on a relative benchmarked basis, i.e. that they are effective value, economically viable and suitable solutions to meet Council's defined levels of services
- Council will demonstrate long term financial sustainability by prioritising the above evaluated projects to optimise short and long-term planning needs, service levels and standards, risks and costs and community expectations
- Capital works programming must be directly linked to Council's strategic objectives and adopted Asset Management Plan priorities which consider feedback through community consultation
- Priority will be given to projects where the majority of funding comes from sources other than Council (e.g. Developer Contributions and grants)
- The Capital investment Program must be fully funded for renewal and new works or the source of funding identified and secured
- Capital investment must be delivered by the required completion date and within approved budgets. Update to the budgets and timeline may require an updated business case

6.5 Asset Allocation

The Council's capital investment portfolio covered investments related to strategic and discretionary assets, beneficial enterprises, investment property and other commercial investments/projects (excluding projects for non-discretionary purpose) designed to deliver the Council's accepted risk profile and return of the portfolio.

6.6 Unique needs

- The Council does not pay any income tax and is exempt from most other taxes. This implies that the Council will not benefit from dividend imputation credits that may arise from investing in Australian shares. While this means fully franked shares do not offer any added benefit, unfranked shares may still be beneficial.
- The Council is also exempt from Stamp Duty on the sale of property.
- The concept of Socially Responsible Investment appeals to the Council where practical as part of its strategic objectives

Socially Responsible Investment is defined by the United Nations Principles for Responsible Investment 2014 as an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole.

6.7 Risk Tolerance

- The Council is reasonably risk averse and any investment taken shall deliver a satisfying risk-adjusted return to the Council. All capital investment must be taken prudently having regards to the risk.

6.8 Key Constraints

- Council currently holds shares in unlisted Subsidiary Companies (Citywide Services Pty Ltd, Queen Victoria Market Pty Ltd) and associates (Regent Management Pty Ltd and Procurement Australasia Pty Ltd). Any proposed changes to the operation/investment of these companies shall follow the constitutions of each subsidiary/associate and LGA 2020 section 110 and 111.

7. Roles and responsibilities

7.1 The Council is responsible for:

- Approving the Financial Sustainability Policy including any amendments to it; and
- Approving investments in capital investment, including investment in beneficial enterprise

7.2 The Investment Committee is responsible for, in consultation with the ELT:

- Making recommendations to the Council or its delegates regarding the strategy of the medium and long-term investment pools and reviewing on an annual basis
- Notifying Council or its delegates regarding the appointment and removal of fund managers as it relates to the medium and long-term investment pools
- Reviewing the performance of capital investments on a regular basis

8. Monitoring, review and assurance

The Chief Financial Officer will establish internal controls and processes that will ensure investment objectives are met and that investments are protected from mismanagement including loss, theft or inappropriate use.

Any breach of this policy is to be reported to the ELT and rectified as soon as possible.

Any material breach of this policy will be reported immediately to the Council and ARC.

9. Recording and reporting

On a quarterly basis, the Chief Financial Officer will provide a report to the ELT and the Finance, Governance and Risk portfolio that includes

- The performance of the medium and long term capital investment against targets and benchmarks;
and
- Details of any breach of this policy

This policy is predicated upon the continuation of the high levels of transparency about capital investment decisions taken and planned within the portfolio

10. Compliance with the governance principles

Section 9(1) of LGA 2020 requires Council to give effect to the overarching governance principles. Section 9(2) of LGA 2020 specifies the governance principles as follows:

- a) Council decisions are to be made and actions taken in accordance with the relevant law (**Compliance with the law**);
- b) Priority is to be given to achieving the best outcomes for the municipal community, including future generations (**Achieve best outcomes for the community**);
- c) The economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted (**Promote the sustainability of the municipality**);
- d) The municipal community is to be engaged in strategic planning and strategic decision making (**Engage the community in strategic planning and decision making**);
- e) Innovation and continuous improvement is to be pursued (**Strive for innovation and continuous improvement**);
- f) Collaboration with other Councils and Governments and statutory bodies is to be sought (**Collaborate with all other levels of government and government agencies**);
- g) The ongoing financial viability of the Council is to be ensured (**Secure the ongoing financial viability of Council**);
- h) Regional, state and national plans and policies are to be taken into to account in strategic planning and decision making (**Strategic planning and decision making must take into account plans and policies in operation at all levels**);
- i) The transparency of Council decisions, actions and information is to be ensured (**Council decisions, actions and information must be transparent**).

In developing the Financial Sustainability Policy the requirements of the governance principles have considered as summarised below:

	Governance Principle	Considerations
(a)	Compliance with the law	All relevant legal requirements have been considered in developing this policy
(b)	Achieve best outcomes for the community	Refer to the comments under (g) below
(c)	Promote the sustainability of the municipality	Refer to the comments under (g) below
(d)	Engage the community in strategic planning and decision making	Not applicable for this policy
(e)	Strive for innovation and continuous improvement	Not applicable for this policy
(f)	Collaborate with all other levels of government and government agencies	Not applicable for this policy
(g)	Secure the ongoing financial viability of Council	Security of Council's financial viability has been the primary consideration in the development of this policy.
(h)	Strategic planning and decision making must take into account plans and policies in operation at all levels	Not applicable for this policy

(i)	Council decisions, actions and information must be transparent	This policy relates to internal management of Council's finances and has met all of the relevant requirements of transparency within Council's management and decision making processes.
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11. Policy review

The Financial Sustainability Policy will be reviewed:

- a. at least every two years as it forms part of the long-term financial plan required by LGA 2020
- b. as required by changed circumstances, including changes to legislation,

and any material changes will be reviewed by Audit and Risk Committee and endorsed by Council.

12. Appendix

Schedule 1

#	Investment category	Benchmark
1	Property	S&P ASX 200 A-REIT 10 Year Return Annualised (Price Return)
2	IT	S&P ASX 200 Information Technology 10 Year Return Annualised (Price Return)
3	Infrastructure	CPI (average forecast 4 years as per the Vic Govt) + 5% (as per VFMC benchmark)
4	Other industries	S&P ASX 200 10 Year Return Annualised (Price Return)

Schedule 2

Financial Sustainability Ratios

Victorian Auditor General Office (VAGO)

VAGO use the following financial indicators to assess Council's financial sustainability risks.

Indicator	Formula	Description
Capital Replacement Ratio (%)	Cash outflows for the addition of new infrastructure, property, plant and equipment / Depreciation	<p>Comparison of the rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate.</p> <p>This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive operating statement.</p>
Asset Renewal and Upgrade Expense to Depreciation Ratio (%)	Renewal and upgrade expenditure / Depreciation	<ul style="list-style-type: none"> This compares the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. <p>Ratios higher than 1.0 indicate that spending on existing assets is faster than the depreciation rate.</p>
Net Result Margin	Net result / Total Revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result.

		<p>A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>The net result and total revenue are obtained from the comprehensive operating statement.</p>
Adjusted Underlying Result	Adjusted underlying surplus (or deficit)/ Adjusted underlying revenue	<p>This measures an entity's ability to generate surplus in the ordinary course of business—excluding non-recurrent capital grants, non-monetary asset contributions, and other contributions to fund capital expenditure from its net result.</p> <p>A surplus or increasing surplus suggests an improvement in the operating position.</p>
Liquidity	Current assets / current liabilities	<p>This measures an entity's ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of one or more means that an entity has more cash and liquid assets than short-term liabilities</p>
Internal financing	Net operating cashflow/ net capital expenditure	<p>This measures an entity's ability to finance capital works from generated cash flow.</p> <p>The higher the percentage, the greater the ability for the entity to finance capital works from its own funds.</p> <p>Net operating cashflows and net capital expenditure are obtained from the cashflow statement</p>
Indebtedness	Non-current liabilities/ own-sourced revenue	<p>This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt.</p> <p>Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.</p>

Local Government Performance Reporting Framework

To measure Council's performance, LGPRF use the following ratios:

Indicator	Formula	Data use/community outcome	Expected Range
Stability			
S1 – Rates compared to adjusted underlying revenue	Rates revenue / adjusted underlying revenue	Assessment of whether council can generate revenue from a range of sources to fund services and activities. Lower proportion of rate to underlying revenue suggests greater stability.	30% - 80%

S2 – Rates compared to property values	Rates revenue / Capital improved value of rateable properties in the municipality	Assessment of whether councils set rates at an appropriate level. Lower proportion of rate revenue suggests a reduced rate burden on the community.	0.15% - 0.75%
Efficiency			
E2 – Expenses per property assessment	Total expenses / number of property assessments	Assessment of whether resources are being used efficiently to deliver services	\$2,000 - \$5,000
E4 – Rates per property assessment	Total rate revenue / number of property assessments	Assessment of whether resources are being used efficiently to deliver services	\$700 - \$2,000
Sustainable Capacity Indicators			
C1 – Total expenses per municipal population	Total expenses / population	Assessment of the extent to which population is a key driver of council's ability to provide services to the community. Lower proportion of expenses relative to population suggests an improved capacity to provide services	\$800 - \$4,000
C2 – Infrastructure per head population	Value of infrastructure / population	Assessment of the extent to which population is a key driver of council's ability to provide services to the community. Higher proportion of infrastructure value relative to population level suggests greater council commitment to improving infrastructure.	\$3,000 - \$40,000
C4 – Own source revenue per population	Own source revenue / population	Assessment of the degree to which councils generate revenue from a range of sources. Higher amount of own source revenue suggests greater capacity to delivery services.	\$700 - \$2,000

C5 – Recurrent grants per population	Recurrent grants / population	Assessment of the degree to which councils generate revenue from a range of sources. Higher amount of grant revenue suggests greater capacity to delivery community services.	\$100 - \$2,000
Liquidity			
L1 – Current Assets compared to Current Liabilities	Current assets/ current liabilities	Assessment of council’s financial position. Higher assets relative to liabilities suggests councils are in a strong position	100% to 400%
L2 – Unrestricted Cash compared to Current Liabilities	Unrestricted cash/ current liabilities	Assessment of council’s abilities to pay bills on time. Higher unrestricted cash relative to liabilities suggests councils are able to pay bills in a timely manner	10% to 300%
Obligations			
O2 – Loans and borrowings compared to rates	Interest bearing loans and borrowings/ rate revenue	Assessment of whether council’s level of interest-bearing loans and borrowings are appropriate to the size and nature of council’s activities. Demonstration of council managing its borrowing strategy in relation to the revenue it raises.	0% to 70%
O3 – Loans and borrowings repayment compared to rates	Interest and principal repayments on interest bearing loans and borrowings/ rate revenue	Assessment of whether council’s level of repayments on interest-bearing loans and borrowings are appropriate to the size and nature of council’s activities. Demonstration of council managing its borrowing strategy in relation to the revenue it raises.	0% to 20%
O4 – Non- current liabilities compared to	Non-current liabilities/ own source revenue	Assessment of whether council’s long term liabilities are appropriate to the size and nature of council activities. Lower proportion of non-current	2% to 70%

own source revenue		liabilities suggests greater capacity to meet long-term obligations	
O5 – Asset Renewal and Upgrade Expense to Depreciation Ratio (%)	Asset renewal and asset upgrade expenditure/ asset depreciation	Assessment of whether council assets are being renewed or upgraded as planned. It compares the rate of spending on existing assets through renewing, restoring, replacing or upgrading existing assets with depreciation. Ratios higher than 1.0 indicate there is a lesser risk of insufficient spending on Council's asset base	40% to 130%
Operating Position			
OP1 – Adjusted underlying surplus or deficit	Adjusted underlying surplus (or deficit)/ adjusted underlying revenue	Assessment of whether council can generate a surplus. A significant surplus (or deficit) achieved in a particular financial year does not necessarily indicate good or bad financial performance in that year	-20% to 20%

TCV Loan Covenants

As per the TCV loan agreement, the Council undertakes that:

1. It will ensure that the aggregate Interest Bearing Loans and Borrowings at all times does not exceed 60% of Own Source Revenue or otherwise such other level as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.
2. It will ensure that the Interest Cover Ratio at all times is not less than 2.00:1.00 or otherwise such other ratio as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.

Indicator	Formula	Data Use	Expected Range
TCV Indebtedness	(Interest bearing loans and borrowings + Current portion of lease liability + Non-current portion of Lease Liability) / Own source revenue	TCV loan covenant	At all times does not exceed 60% of Own Source Revenue or otherwise such other level as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.

TCV Interest Coverage Ratio	Earnings Before Interest, Tax, Depreciation and Amortisation / Interest Expense	TCV loan covenant	At all times not less than 2.00:1.00 or otherwise such ratio as prescribed by the Treasurer of Victoria in respect of the Council and notified by TCV to the Council from time to time.
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Schedule 3

References

a. Local Government Performance Reporting Framework (LGPRF)

The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report. Certain indicators must also be included in Council's Budget and Strategic Resource Plan and Long-Term Financial Plan.

b. The Local Government Act 2020

- **Section 101 Financial Management Principles** states that

(1) *The following are the financial management principle:*

- Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans*
- Financial risks must be monitored and managed prudently having regard to economic circumstances*
- Financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community*
- Accounts and records that explain the financial operations and financial position of the Council must be kept.*

(2) *For the purposes of the financial management principles, financial risk includes any risk relating to the following:*

- The financial viability of the Council*
- The management of current and future liabilities of the Council*
- The beneficial enterprises of the Council*

- **Section 102 Financial Policies** states that

(1) *A Council must prepare and adopt financial policies that give effect to the financial management principles*

(2) *A financial policy must include any matters prescribed by the regulations*

c. Victorian Auditor General's Office (VAGO)

VAGO examines and reports on the management of resources within the public sector.

d. Local Government (Planning and Reporting) Regulations 2020

The objective of these Regulations is to prescribe:

- The content and preparation of the financial statements of a Council; and
- The performance indicators and measures to be included in the budget, revised budget and annual report of a Council; and
- The information to be included in a Financial Plan, budget, revised budget and annual report; and
- Other matters required to be prescribed under Part 4 of the Act.