Executive Summary

The analysis and comments on Bass Coast’s Financial KPI’s follow on from a similar analysis performed on the 2015/16 data and aim to provide an objective opinion on the trends that have occurred during the three year period.

The comments made in this summary are formed solely on the basis of reviewing Bass Coast’s Annual Report figures with those of like Councils and the State averages. As a result there will be assumptions drawn that do not have the benefit of the political imperatives that exist at Bass Coast, nor the business reasoning behind some of the financial choices that have been made. Despite these limitations, there is frequently good value to be obtained in having a fresh set of eyes view Council’s data without necessarily being limited by this knowledge.

Drawn from the 2016/17 Annual Reports of all 79 Victorian Councils, financial data has been fed into financial “key performance indicators” (KPI’s). The ratios presented have been based on the definitions shown and have been collected in a consistent manner from the reported data.

The key points from the analysis are:

- Council’s reliance on Rate Revenue in 2016/17, at 71.2% of total revenue, is highest of its like Council grouping and also higher than the State-wide average.

- Although Council is second highest of the group for rates per capita (with a population density of only 1.09 persons per assessment compared to the average for the group of 1.61), its rates per assessment outcome remains at third lowest of the group, with Council rating at $193 per assessment (total of $5.8M) less than that of the average for the group.

- Council’s performance in collecting its annual rates continues to improve on previous years, and is at 4.17% of rates levied remaining outstanding at year end (compared with averages of 6.0% for the group and 5.7% State-wide) - noting that Industry best practice is at a level of around 2%.

- With its operating grants declining by 49.5% in 2015/16 and then increasing 102% in 2016/17 the impact of fluctuating Victoria Grants Commission funding is evident (prepayments in some years). Bass Coast is the second lowest Council of the group in terms of grants received as a percentage of Total Revenue in 2016/17, indicating a much lower than average reliance on this source of revenue. Total operating grants is forecast to decrease by $1.976M (17.2%) in the 2017/18 financial year.

- Bass Coast has a lower outcome at 9.4%, against the group average of 11.4%, for its ratio of Fees and Charges as a percentage of total revenue. Fees and charges revenue increased by $0.853M (14.1%) in 2016/17, with a small increase forecast for the 2017/18 year. Developing a broader revenue base from Fees reduces the reliance on property based rating and this remains an opportunity for Bass Coast.

- While Bass Coast has achieved a net operational surplus per assessment, over each year of the trend period, the results are well below those of the group and State-wide averages. With an operational net surplus of $546 per assessment in 2016/17, and a forecast surplus of $425 per assessment in 2017/18, this remains below the group and State averages and impacts on the level of capital expenditure to be funded from the operating budget. (Note Council spends $576 less per assessment than its group average, but raises $953 less revenue per assessment).
• Debt indicators are well within prudential guidelines, even after new borrowings of $13.945M in 2016/17 and forecast new borrowings of $16.755M in 2017/18. Continued borrowings at these levels annually will ultimately impact on the debt ratios and longer term financial sustainability and should be considered in long term planning.

• Council has recorded an underlying operating deficit over the previous two years with 2016/17 and the forecast for the 2017/18 financial year showing surpluses, which is a positive turnaround. Operating deficits cannot be sustained and this should be addressed in long term financial planning. Note only one of the 19 Councils, in the large rural group recorded an underlying deficit in 2016/17.

• Bass Coast’s total assets per assessment remains significantly lower than the average of the group and State-wide, with the largest variance being in the non-realisable assets category. Council needs to review its recognition and valuation of assets, including useful life assumptions, to ensure asset values included in the Balance Sheet are appropriate to local asset conditions, noting the variable recognition of Land Under Roads by different Councils can skew the results.

• Bass Coast’s unrestricted cash ratio is 176.71% and is at sixth highest of the group. Strategy Plus calculates an accumulated cash result which estimates the residual amount of current assets (excluding land held for resale) after deducting current and non-current liabilities (excluding indebtedness and landfill provisions) and discretionary reserve funds. Using this calculation, Council has recorded an accumulated cash deficit of $7.756M in 2016/17 (2015/16: $7.242M deficit). The 2017/18 forecast is for an accumulated cash deficit of $7.139M.

• Capital expenditure has slightly improved again in 2016/17, to $415 per assessment, however Council remains well below the average for the group ($892) and State-wide ($819). Although the 2017/18 forecast is for an increase in capital expenditure, this assumes works are fully completed in the financial year and not carried forward (which is rarely the case). With respect to asset renewal/upgrade as a percentage of capital expenditure, Bass Coast is fifth lowest of the group, with an outcome of 81.47% in 2016/17. Council needs to achieve an average of at least 100% if it is to position itself for replacing assets as they fall due. Further, with capital expenditure at only 24.1% of rate revenue for 2016/17, Council is lowest of the group, with the group average being 47.0% and State-wide 44.1%.

• In terms of the financial sustainability indicator that has been compiled by Strategy Plus, Bass Coast ranks at the lower end of sustainable Councils in the Large Rural Council grouping due to low levels of asset renewal and upgrade total over the ten years to 2016/17. While it has achieved positive outcomes for accumulated cash and indebtedness ratios, as well as the underlying surplus in 2016/17, Council needs to focus on the capital renewal program.
Bass Coast Shire Financial Indicators

The development of financial strategies for Council is often a difficult process. What is an acceptable level of debt? Are we achieving a sufficient amount of revenue to provide services to our community? What should our target be in respect of resourcing expenditure on new assets (capital expenditure)? These are just a few of the multitude of questions that Council must face in establishing its financial strategic direction.

Some of the answers may come from prudential guidelines established by industry bodies such as Local Government Victoria. A great deal however is left for each Council as an individual entity to determine. How does Council gather appropriate data on which to base decisions about its financial future?

The use of financial indicators that assess the comparative financial position of each Council in the State of Victoria and then aggregates them into State averages and further into averages for groups of like Councils, provides an extremely valuable source of information in establishing financial strategies. It highlights the relative financial strengths of Council and more importantly uncovers the opportunities that Council must grasp for improvement.

The benchmarking program that has been undertaken by Strategy Plus differs to other approaches in that it is derived almost solely from financial data contained in Council’s annual reports. This ensures that data is as comparable as possible under the current accounting regulations.

The financial indicators cover all 79 Victorian Councils. In each KPI the information shown is as follows:

- the position at the 30th June, 2015
- the position at the 30th June, 2016
- the position at the 30th June, 2017
- the average for Victorian Councils categorised as “Large Rural” (Bass Coast’s group)
- the State average
- the 2017/18 budget or forecast (as advised by Bass Coast Shire)

Commentary is provided on what the ratio highlights and what purposes the ratio serves in terms of future trends. The performance indicators are presented in graphical form and provide an easy to read insight into Council’s financial performance and current financial position.

In terms of the categorisation of Council’s, the five categories below are those used by the Victorian Auditor General (VAGO). As stated above, the 2016/17 KPIs have been completed from the Annual Reports of every Victorian Council.

<table>
<thead>
<tr>
<th>Category Description</th>
<th>Councils within Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner Melbourne</td>
<td>22</td>
</tr>
<tr>
<td>Outer Melbourne</td>
<td>9</td>
</tr>
<tr>
<td>Regional Cities</td>
<td>10</td>
</tr>
<tr>
<td>Large Shires</td>
<td>19</td>
</tr>
<tr>
<td>Small Shires</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
</tr>
</tbody>
</table>
As a broad overview, the table below highlights in figure terms the performance indicators that have been graphed and analysed.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Revenue / Adj Total Revenue</td>
<td>69.9%</td>
<td>78.7%</td>
<td>71.2%</td>
<td>57.7%</td>
<td>58.7%</td>
<td>75.5%</td>
</tr>
<tr>
<td>Rates per Capita</td>
<td>$1,459</td>
<td>$1,564</td>
<td>$1,586</td>
<td>$1,220</td>
<td>$1,112</td>
<td>$1,671</td>
</tr>
<tr>
<td>Rates per Assessment</td>
<td>$1,579</td>
<td>$1,684</td>
<td>$1,722</td>
<td>$1,915</td>
<td>$1,887</td>
<td>$1,814</td>
</tr>
<tr>
<td>Rates Outstanding / Total Rates Levied</td>
<td>5.1%</td>
<td>4.5%</td>
<td>4.2%</td>
<td>6.0%</td>
<td>5.7%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Rates Outstanding per Capita</td>
<td>$74</td>
<td>$70</td>
<td>$66</td>
<td>$71</td>
<td>$63</td>
<td>$68</td>
</tr>
<tr>
<td>Recurrent/Operating Grants / Adj Total Revenue</td>
<td>17.0%</td>
<td>9.9%</td>
<td>15.7%</td>
<td>26.7%</td>
<td>23.0%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Fees &amp; Charges / Total Revenue</td>
<td>9.1%</td>
<td>9.5%</td>
<td>9.4%</td>
<td>11.4%</td>
<td>13.0%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Adj Total Revenue per Assessment</td>
<td>$2,260</td>
<td>$2,138</td>
<td>$2,418</td>
<td>$3,371</td>
<td>$3,287</td>
<td>$4,025</td>
</tr>
<tr>
<td>Adj Total Expenses per Assessment</td>
<td>$2,312</td>
<td>$2,390</td>
<td>$2,327</td>
<td>$3,145</td>
<td>$3,007</td>
<td>$2,907</td>
</tr>
<tr>
<td>Adj Total Expenses (ex Dep) per Assessment</td>
<td>$1,902</td>
<td>$1,878</td>
<td>$1,871</td>
<td>$2,447</td>
<td>$2,397</td>
<td>$1,977</td>
</tr>
<tr>
<td>Net adj. operational surplus per assessment</td>
<td>$358</td>
<td>$260</td>
<td>$546</td>
<td>$924</td>
<td>$890</td>
<td>$425</td>
</tr>
<tr>
<td>Total Expenses per Capita</td>
<td>$2,136</td>
<td>$2,191</td>
<td>$2,143</td>
<td>$2,003</td>
<td>$1,858</td>
<td>$2,194</td>
</tr>
<tr>
<td>Employee costs / Adj Total Expenses</td>
<td>40.9%</td>
<td>38.0%</td>
<td>39.8%</td>
<td>39.6%</td>
<td>39.6%</td>
<td>40.3%</td>
</tr>
<tr>
<td>Debt Servicing Costs / Adj Total Revenue</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Debt Servicing &amp; Redemption / Rate Revenue</td>
<td>3.6%</td>
<td>7.4%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total Debt / Rate Revenue</td>
<td>26.0%</td>
<td>25.0%</td>
<td>26.8%</td>
<td>22.0%</td>
<td>20.8%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Total Liabilities / Total Realisable Assets</td>
<td>13.6%</td>
<td>13.2%</td>
<td>12.6%</td>
<td>16.9%</td>
<td>11.5%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Debt Commitment / Own Source Revenue</td>
<td>3.1%</td>
<td>5.5%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>3.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Total Debt / Own Source Revenue</td>
<td>24.4%</td>
<td>22.0%</td>
<td>23.3%</td>
<td>18.3%</td>
<td>16.8%</td>
<td>26.8%</td>
</tr>
<tr>
<td>Proceeds from New Borrowings / Cash Inflows</td>
<td>2.4%</td>
<td>3.0%</td>
<td>2.7%</td>
<td>1.0%</td>
<td>0.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Total Debt per Capita</td>
<td>$409</td>
<td>$391</td>
<td>$425</td>
<td>$259</td>
<td>$222</td>
<td>$510</td>
</tr>
<tr>
<td>Debt Commitment per Capita</td>
<td>$53</td>
<td>$115</td>
<td>$55</td>
<td>$45</td>
<td>$40</td>
<td>$60</td>
</tr>
<tr>
<td>Debt Commitment per Assessment</td>
<td>$57</td>
<td>$124</td>
<td>$60</td>
<td>$72</td>
<td>$70</td>
<td>$65</td>
</tr>
<tr>
<td>Total Liabilities per Capita</td>
<td>$953</td>
<td>$908</td>
<td>$973</td>
<td>$880</td>
<td>$718</td>
<td>$1,137</td>
</tr>
<tr>
<td>Total Liabilities per Assessment</td>
<td>$1,032</td>
<td>$977</td>
<td>$1,057</td>
<td>$1,395</td>
<td>$1,230</td>
<td>$1,234</td>
</tr>
<tr>
<td>Adj Operating Surplus (Deficit) / Total Assets</td>
<td>-0.3%</td>
<td>-1.2%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total Assets per Assessment</td>
<td>$20,813</td>
<td>$20,627</td>
<td>$21,471</td>
<td>$21,400</td>
<td>$33,263</td>
<td>$20,454</td>
</tr>
<tr>
<td>Total Assets per Capita</td>
<td>$19,227</td>
<td>$19,157</td>
<td>$19,771</td>
<td>$19,865</td>
<td>$19,762</td>
<td>$18,840</td>
</tr>
<tr>
<td>Unrestricted Cash (as % of Curr Liab)</td>
<td>94.6%</td>
<td>108.8%</td>
<td>176.7%</td>
<td>114.0%</td>
<td>98.7%</td>
<td>140.1%</td>
</tr>
<tr>
<td>Total Depreciation / Total Assets</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.1%</td>
<td>2.3%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Depreciation on Infrastructure / Infrastructure Assets</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Capex / Adj Tot Exps (incl Capex, excl Dep’n)</td>
<td>15.0%</td>
<td>16.4%</td>
<td>18.2%</td>
<td>26.6%</td>
<td>25.1%</td>
<td>23.7%</td>
</tr>
<tr>
<td>Total Capital expenditure per Assessment</td>
<td>$335</td>
<td>$368</td>
<td>$415</td>
<td>$892</td>
<td>$819</td>
<td>$615</td>
</tr>
<tr>
<td>Surplus operational funds spent on Capex (per assessment)</td>
<td>-88</td>
<td>-44</td>
<td>-276</td>
<td>-404</td>
<td>-368</td>
<td>-116</td>
</tr>
<tr>
<td>Capital Expenditure on Renewal &amp; Upgrade / Depreciation</td>
<td>64.1%</td>
<td>63.8%</td>
<td>81.5%</td>
<td>101.3%</td>
<td>100.8%</td>
<td>107.3%</td>
</tr>
<tr>
<td>Capital Exp / Rate Revenue</td>
<td>21.2%</td>
<td>21.9%</td>
<td>24.1%</td>
<td>47.0%</td>
<td>44.1%</td>
<td>33.9%</td>
</tr>
<tr>
<td>Liquidity Alert</td>
<td>(686,000)</td>
<td>(4,062,000)</td>
<td>(3,029,000)</td>
<td>16,898,094</td>
<td>24,599,909</td>
<td>(5,892,000)</td>
</tr>
<tr>
<td>Accumulated Cash Surplus (Balance Sheet calc)</td>
<td>(4,232,000)</td>
<td>(7,242,000)</td>
<td>(7,756,000)</td>
<td>14,635,287</td>
<td>18,955,952</td>
<td>(7,139,000)</td>
</tr>
<tr>
<td>Accum Cash Surplus (net of reserves)as % of Adj Total Revenue</td>
<td>23.7%</td>
<td>26.5%</td>
<td>36.6%</td>
<td>37.9%</td>
<td>39.3%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Note: Throughout this document, all rankings, graphs and averages exclude the City of Melbourne.
In terms of reading the KPIs the following definitions should be understood.

<table>
<thead>
<tr>
<th>KPI Description</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operating Surplus / (Deficit) i.e Underlying result</td>
<td>Operating surplus deficit less revenue from Capital (Non-recurrent) grants, Developer contributions (ie. assets contributed), Asset Revals, Sale of Assets plus expenditure from Asset Revals, WDV of assets sold. Landfill Remediation Provision increases (through Income Statement) and unfunded superannuation expense.</td>
</tr>
<tr>
<td>Adjusted Total Operating Expenses</td>
<td>Total Operating expenses as per the &quot;Income Statement&quot; - net of asset revals, unfunded superannuation expense and WDV of asset sold. (Also excludes any Income Statement amounts for Landfill Remediation Provision increases).</td>
</tr>
<tr>
<td>Adjusted Total Revenue</td>
<td>Total Revenue from &quot;Income Statement&quot; - net of asset sales, asset contributions in kind, capital grant funding &amp; contributions and revaluation adjustments.</td>
</tr>
<tr>
<td>Asset renewal &amp; upgrade</td>
<td>per Capital Works Statement/Note.</td>
</tr>
<tr>
<td>Assets &amp; Contributions by Developers</td>
<td>Total value of assets &amp; contributions received from developers as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements. (includes contributions for Open Space).</td>
</tr>
<tr>
<td>Capital Grants &amp; Contributions</td>
<td>Capital grants and contributions as disclosed in notes.</td>
</tr>
<tr>
<td>Cash &amp; Investments on hand</td>
<td>Cash &amp; Investments per &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Change in Equity (Income)</td>
<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (income) - include Library profit here.</td>
</tr>
<tr>
<td>Change in Equity (Income)</td>
<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (expense) - include Library loss here.</td>
</tr>
<tr>
<td>Change in Equity (Income)</td>
<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (income) - include Library profit here.</td>
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</tr>
<tr>
<td>Change in Equity (Income)</td>
<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (expense) - include Library loss here.</td>
</tr>
<tr>
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<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (income) - include Library profit here.</td>
</tr>
<tr>
<td>Change in Equity (Income)</td>
<td>As per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements - for example revaluation adjustments / correction fundamental error (expense) - include Library loss here.</td>
</tr>
<tr>
<td>Current Assets</td>
<td>Total current assets from &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Non Current Assets (excluding Fixed Assets)</td>
<td>From &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>Total current liabilities from &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Debt Redemption</td>
<td>Debt repayments including DBS superannuation liability repayment.</td>
</tr>
<tr>
<td>Debt Servicing Costs (Interest)</td>
<td>Total borrowing costs or interest expense as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements.</td>
</tr>
<tr>
<td>Employee Costs</td>
<td>Employee costs in the &quot;Income Statement&quot;.</td>
</tr>
<tr>
<td>Fees &amp; Charges Revenue</td>
<td>Total Fees &amp; Charges revenue as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements. (includes fines and rent).</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>Total interest received as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements. (includes interest on rates).</td>
</tr>
<tr>
<td>Land Held for Resale (current)</td>
<td>per Balance Sheet or disclosed in note.</td>
</tr>
<tr>
<td>Landfill Remediation Provision (expense)</td>
<td>Any amounts set aside in a provision for future Landfill remediation (increase in provision per Income Statement).</td>
</tr>
<tr>
<td>Liquidity Alert</td>
<td>Cash assets less LSL provision and reserves (assumes cash backing required for LSL and reserves). Calculated figure shows funds available after cash backing LSL and reserves.</td>
</tr>
<tr>
<td>Long Service Leave Liability (Current + Non Current)</td>
<td>Long Service Leave liability (Current plus Non-current) per note.</td>
</tr>
<tr>
<td>Loss from sale of non-current assets</td>
<td>Net loss from asset sales as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements.</td>
</tr>
<tr>
<td>No of Rateable Properties</td>
<td>Number of rateable properties per Grants commission advice.</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td>Total non-current liabilities from &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Operating Grant Income &amp; Re-imbursements</td>
<td>Operating grants revenue as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements. (includes VicRds sometimes shown as &quot;reimbursements&quot; by some Councils.)</td>
</tr>
<tr>
<td>Operating Surplus (Deficit)</td>
<td>Operating result from Income Statement.</td>
</tr>
<tr>
<td>Population</td>
<td>Population per ABS.</td>
</tr>
<tr>
<td>Proceeds from New Borrowings</td>
<td>Amount of any new borrowings/loans per the &quot;Cash flow statement&quot;.</td>
</tr>
<tr>
<td>Profit from sale of non-current assets</td>
<td>Net profit from asset sales as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements.</td>
</tr>
<tr>
<td>Rate Revenue</td>
<td>Total Rate revenue as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements.</td>
</tr>
<tr>
<td>Rates Outstanding at End of Year</td>
<td>Total rate debtor amount as disclosed in &quot;Receivables&quot; note.</td>
</tr>
<tr>
<td>Reserve Funds (excluding Asset Reval)</td>
<td>per Balance Sheet or disclosed in note.</td>
</tr>
<tr>
<td>Superannuation debt repayment</td>
<td>Any repayments for unfunded superannuation liability (DBS) per notes or in &quot;Cash flow statement&quot;.</td>
</tr>
<tr>
<td>Superannuation Liability</td>
<td>Any remaining liability for unfunded superannuation (DBS) as disclosed in notes.</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Total assets from &quot;Balance Sheet&quot;.</td>
</tr>
<tr>
<td>Total Capital Expenditure</td>
<td>Capital expenditure per the &quot;Capital Works&quot; note or Standard Capital Works Statement.</td>
</tr>
<tr>
<td>Total Cash Inflows from Operations, Finance &amp; Investment Act</td>
<td>Total inflows per the &quot;Cash flow statement&quot;.</td>
</tr>
<tr>
<td>Total Cash Outflows from Operations, Finance &amp; Investment Act</td>
<td>Total outflows per the &quot;Cash flow statement&quot;.</td>
</tr>
<tr>
<td>Total Debt</td>
<td>Total interest bearing liabilities (current and non-current) from &quot;Balance Sheet&quot; plus outstanding Defined Benefits Superannuation liability, plus overdrafts.</td>
</tr>
<tr>
<td>Total Depreciation</td>
<td>Total depreciation expense as per the &quot;Income Statement&quot; or as disclosed in note in some Council's statements.</td>
</tr>
<tr>
<td>Total Depreciation on Infrastructure Assets</td>
<td>Total Depreciation on Infrastructure Assets as disclosed in &quot;Depreciation expense&quot; note.</td>
</tr>
<tr>
<td>Total Infrastructure Assets</td>
<td>Total infrastructure assets from &quot;Balance Sheet&quot; or as disclosed in note. (written down value.) Infrastructure includes roads (and land under roads), bridges, drains, road structures, other structures, playground equip., parking meters and other like categories, heritage assets have been deemed to be building assets. Work in progress where not separately split has been included as infrastructure.</td>
</tr>
<tr>
<td>Total Net Realisable Assets</td>
<td>Total assets less total infrastructure assets.</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>Total Operating expenses as per the &quot;Income Statement&quot; plus Loss on sale of assets where net method used, plus loss on associates.</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>Total Revenue from &quot;Income Statement&quot; plus gains from asset sales (net method) and net profit from Associates.</td>
</tr>
</tbody>
</table>
1. **RATING KEY PERFORMANCE INDICATORS**

1.1 Rate Revenue / Total Revenue

**Explanation:**

This ratio shows revenue raised by way of general rates, expressed as a percentage of total revenue as adjusted by removal of abnormal items.

**Warning Trend:**

Rate income is a secure and predictable source of revenue. A low ratio can warn of undue reliance on forms of revenue, which may or may not be sustainable – such as Government grants. A high ratio may, however, indicate that Council has not pursued alternative revenue forms effectively.

**Factors influencing the Indicator:**

A strong Revenue base from sources such as Grants (recurrent) and Fees and Charges will lower the outcome.

**Council’s Ratio at 30th June 2017:** 71.24%

**Council’s Group Ranking:** Highest of the 19 Councils

**Graphical Presentation:**

The graph shows that Council’s reliance on Rate Revenue is highest of the group, at 71.2% of total revenue, and is also higher than the State-wide average.

An increase of 4.0% in rate revenue occurred in 2016/17, with a further increase of 5.3% forecast for the 2017/18 year.
1.2 Rates per capita

Explanation:

This ratio highlights the average rates per capita calculated by dividing total Rate Revenue by population.

Warning Trend:

Low rates per capita may indicate Council is rating at below its capacity compared to other like Councils.

Factors influencing the Indicator:

Councils who have a large industry within their boundaries may therefore have large rates per capita. The ratio does not, however, indicate what the average ratepayer pays – only the funds Council derives compared to the number of people it has to service. The ratio can also be affected by population density relative to the number of rateable assessments.

Council’s Result at 30th June 2017: $1,586

Council’s Group Ranking: 2nd highest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Council’s performance in this ratio has trended higher, noting population has increased by further 2.5% in 2016/17 (2015/16: 1.3%). This ratio can however be significantly distorted by the degree of residential character versus commercial/industrial ratepayers.

Population density can also affect this ratio and Bass Coast remains below the average for the Large Rural group which adversely impacts on its performance in this ratio (1.09 persons per assessment compared to the average for the group of 1.61).
1.3 Rates per assessment

Explanation:
This ratio highlights the average rates per assessment calculated by dividing Rate Revenue by the number of rateable assessments.

Warning Trend:
Low rates per assessment may indicate Council is rating at below its capacity compared to other like Councils.

Factors influencing the Indicator:
Councils who have a large industry within their boundaries may find Rates per Assessment more appropriate than Rates per Capita as a meaningful measure. All Councils need to derive a level of funds per assessment to operate and large industrial ratepayers can serve to lower the residential rate making the Rates per Assessment KPI a comparable indicator for benchmarking purposes.

Council’s Result at 30th June 2017: $1,722
Council’s Group Ranking: 3rd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
Rates per assessment is probably the more accurate guide to rating levels as it cancels out the impact of various population densities and levels of commercial ratepayers. Bass Coast is the third lowest of the group with this ratio and is $193 per assessment ($5.8M) below the average outcome.

Whilst Bass Coast was second highest in the Rates per Capita ratio, the result in this ratio shows it at third lowest, and the 2017/18 forecast for this ratio remains lower than the current average for the group and State-wide – residential rates per assessment is also slightly below the group average (see below).
Further detailed benchmarking of **residential** rates per residential assessment is shown below:

Residential rates per residential assessment is derived from Council’s Performance Statement and includes all rates and charges such as municipal charges, garbage charges, etc.
1.4 Rates Outstanding / Total Rates

Explanation:

This ratio is the percentage of levied rates that remain unpaid at the end of the year.

Warning Trend:

An increasing trend may demonstrate inefficiency with rate collection that will ultimately place pressure on Council's liquidity.

Factors influencing the Indicator:

The indicator is a good measure of the efficiency of the collection process.

Council’s Ratio at 30th June 2017: 4.17%

Council’s Group Ranking: 6th lowest of the 19 Councils

Graphical Presentation:

![Graphical Presentation](image)

Commentary on Ratio:

Council’s performance in rate collection continues to improve on previous years, and it is ranked sixth lowest Council in the group in terms of outstanding rates compared with rates levied (2015/16: sixth lowest). This is a good result, and is below both group and State-wide averages.

There is opportunity for Bass Coast to improve its liquidity position, an outcome of 2% or below is considered Best Practice in the industry. The 2017/18 forecast indicates a similar result to that achieved in 2016/17.
2.0 OTHER REVENUE KEY PERFORMANCE INDICATORS

2.1 Operating Grant Revenue / Total Revenue

Explanation

This ratio compares the amount of Government Operating Grants to the Adjusted Total Revenue figure.

Warning Trend

A decreasing trend may indicate a reduced level of financial commitment from other tiers of government, increasing pressure on Local Councils.

Factors influencing the indicator:

Surges in either Rate revenue or Fees and Charges can impact on this outcome. Councils may further receive large grants to deliver one-off operational expenditure and as these are not recurrent they may cause a spike in the graphs.

Council’s Ratio at 30th June 2017: 15.70%

Council’s Group Ranking: 2nd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

With its operating grants declining by 49.5% in 2015/16 and then increasing 102% in 2016/17, the impact of fluctuating Victoria Grants Commission funding is evident (prepayments in some years). Bass Coast is the second lowest Council of the group in terms of grants received as a percentage of Total Revenue in 2016/17, indicating a much lower than average reliance on this source of revenue. Total operating grants whilst increasing $5.804M in 2016/17 is forecast to decrease by $1.976M (17.2%) in the 2017/18 financial year.
2.2  Fees & Charges Revenue / Adjusted Total Revenue

Explanation

This ratio compares the amount received from Fees and Charges to the Adjusted Total Revenue figure.

Warning Trend

A decreasing trend may put pressure on Councils ability to continue to provide both Operational services and capital works. It may require Council to source income from rates or loan borrowings.

Factors influencing the indicator:

Spikes in grant income may boost Total Revenue from year to year distorting the ratio.

Council’s Ratio at 30th June 2017:  9.41%

Council’s Group Ranking:  8th lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
Bass Coast has a similar outcome at 9.3% as previous years and remains lower than the group average of 11.4% for this ratio. The average is however impacted upon by a few Councils with large entrepreneurial enterprises which generate significant Fees & Charges.

Fees and charges revenue in dollar terms has increased by $0.853M (14.1%) in 2016/17, with a small increase forecast for the 2017/18 year. Developing a broader revenue base from Fees reduces the reliance on property based rating and this remains an opportunity for Bass Coast. Council should continue to endeavour to balance its three major income streams (Rates, Grants and Fees) to meet future resourcing needs.
The below two graphs highlight Bass Coast’s comparative performance in attracting Grant and Fees and Charges Revenue.
3. TOTAL EXPENSES KEY PERFORMANCE INDICATORS

3.1 Total Expenses (Net of Depreciation) / Assessments

Explanation

This ratio shows the average operating expense (net of depreciation) outlay for each rateable property. It should be noted however that this is purely financially based and doesn't account for relative service levels.

Warning Trend

It is expected that operating expenses will grow annually in line with the escalating costs of service provision. An increasing cost per assessment, beyond this normal escalation, may indicate inefficiencies in service delivery or reflect decisions on service levels. Falling trends may conversely indicate efficiencies or falling service levels.

Factors influencing the indicator:

The policy Councils adopt on exactly what expenditure is expensed (operating) and what is treated as capital expenditure affects this indicator. Other factors such as large grant programs that affect both the expenditure levels and revenue amounts can also affect the amount of Total Operating Expenses.

Council’s Result at 30th June 2017: $1,871

Council’s Group Ranking: 2nd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

In terms of operational expenditure (excluding depreciation), Bass Coast ranks as spending $576 less per assessment (totalling $17.423M) than the average for the Large Rural grouping. Although the 2017/18 forecast indicates an increase, it remains below the current average of the group and State-wide. This outcome needs to be read in conjunction with the revenue per assessment ratio and therefore net operational outcome.
3.2 Total Adjusted Revenue / Assessments

Explanation

This ratio shows the average revenue that Council receives for each rateable property.

Warning Trend

The warning trend for this indicator must be read in conjunction with the trends in operational spending. Council must be mindful to continue to provide operational services that meet the needs of their communities whilst keeping an appropriate balance of funds available to complete capital works. A sharply rising trend in revenue (as compared to expenses) will indicate that Council is increasing its operational surplus and therefore ability to complete capital. Conversely a revenue trend that is growing less than expenses will indicate a declining ability to dedicate funds to capital.

Factors influencing the indicator:

Large operational grant programs will influence this result on a year to year basis. (NB capital grants are excluded from this ratio) Increases in rate revenue will strengthen the result.

Council’s Result at 30th June 2017: $2,418

Council’s Group Ranking: Lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Bass Coast records the lowest revenue per assessment and is $953 per assessment below the group average. It is the net result however, which is important to benchmark, in terms of net funds generated and available for capital spending...see next ratio below.
3.3 Net operational surplus per assessment

Explanation
This ratio shows the net operational position per assessment, combining the outcomes of the ratio’s presented in 3.1 and 3.2. The net operational position is an indicator that highlights to Council whether it is has the balance correct between operational service provision and the retention of a sufficient operational surplus to complete capital spending.

Warning Trend
An increasing net outcome will highlight that Council’s ability to complete capital works is strengthening but may also indicate that it has altered its commitment to providing operational services to the community. A decreasing trend will highlight that the cost of providing operational services is consuming a greater proportion of the surplus funds available to fund capital works.

Factors influencing the indicator:
Council’s with large Operational Revenue’s (e.g. parking) that do not necessarily have matching expenditures will typically be strong in this ratio. Council’s philosophy towards service provision will have a large bearing on the ratio outcome. Those Council’s committed to providing strong operational services to the community, as compared to physical infrastructure, will typically have a lower result.

Council’s Result at 30th June 2017: $546

Council’s Group Ranking: 2nd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
The above outcome, while positive for Bass Coast, is well below the group and State-wide average. The 2017/18 forecast is for a reduction in this result, – noting the achievement of a surplus is the rate funding available for capital expenditure, with the emphasis on asset renewal being particularly important.
3.4 Employee costs / Adj Total Expenses

Explanation
This ratio shows the total of employee costs expressed as a percentage of Council’s Total Operating Expenses

Warning Trend
An increasing cost as a percentage of Total Expenditure may indicate that employee costs are increasing at a rate greater than Council’s total spending and therefore limiting Council’s flexibility to spend in areas other than employee costs. A reducing percentage may indicate that service levels are not being maintained or that service delivery is being outsourced.

Factors influencing the indicator:
This indicator needs to be read with some caution as a number of factors will make direct comparisons between Councils problematic. The degree to which a Council outsources significant service delivery components will have a major impact on this ratio as will the extent of activity in services that Council delivers that may have matching revenue.

Another influencing factor will be the degree to which Council is able to deploy staffing costs into the delivery of capital works - employee costs shown in this ratio are only those that are applied to operational expenditure as per the Statement of Financial Performance. Finally, the range of services offered by Council may impact the ratio with social based services being principally labour based.

Council’s Result at 30th June 2017: 39.85%

Council’s Group Ranking: Middle of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
In this ratio, Bass Coast is in the middle of the 19 Councils in the group (2015/16: sixth highest), slightly below the State average. This ratio is however contributed to by the mix and type of services provided by Council in comparison to others. Community services, for example, are largely labour intensive. Care should be exercised in interpreting the outcomes of this ratio. The ratio is also impacted upon by the degree of outsourcing that may be undertaken either in Bass Coast or the remaining municipalities.
4. DEBT KEY PERFORMANCE INDICATORS

4.1 Debt Servicing Costs / Total Revenue

Explanation

This ratio shows the amount of loan interest paid compared to Total Revenue.

Warning Trend

Increasing debt-servicing costs indicate an increased financial burden on the current revenue base.

Factors influencing the indicator:

Large capital works programs that are funded by loan programs will obviously impact on this ratio. Such programs may cause spikes in the ratio but must be managed to ensure loan ratios return to acceptable levels. Variations in Total Revenue both upwards and downwards obviously impact on this ratio. If grant income were to fall for example, this ratio would increase.

Council’s Ratio at 30th June 2017: 0.86%

Council’s Group Ranking: 5th highest of the 19 Councils

Graphical Presentation:

Debt Servicing Costs / Adj Total Revenue

Commentary on Ratio:

Bass Coast undertook $2.591M in new borrowings for the 2016/17 financial year, with a further $4.321M of borrowings forecast in 2017/18. Total debt at 30th June 2017 is $13.945M and interest expense of $0.629M was incurred for the 2016/17 year.

With a prudential guideline of 5% for this indicator, Council remains well within acceptable limits and continues to have borrowing capacity in the future, as part of the capital funding mix.
### 4.2 Debt Servicing and Redemption / Rate Revenue

**Explanation**

This ratio, commonly called the Debt Commitment Ratio, compares funds paid on loan interest and loan principal to Rate Revenue.

**Warning Trend**

Increasing debt servicing and redemption costs places an increased financial burden on the current revenue base.

**Factors influencing the indicator:**

Aggressive debt repayment strategies obviously increase this ratio. Large increases in the rate revenue either from Council’s rating strategy or from growth in the rate base, will also affect the ratio.

**Council’s Ratio at 30th June 2017:** 3.46%

**Council’s Group Ranking:** 8th lowest of the 19 Councils

**Graphical Presentation:**

#### Commentary on Ratio:

In contrast to other debt ratios, Debt Commitment (Servicing and Redemption) as a percentage of Rate Revenue is used to some degree as a measure of how proactive the Council is at reducing debt, where this is the desired debt strategy.

Bass Coast paid $1.175M for loan redemption and $0.629M interest expense in the 2016/17 year, and is now more in line with the group and State averages.
4.3 Total Indebtedness / Total Rate Revenue

Explanation

This ratio measures the level of indebtedness compared to the Rate base that supports it.

Warning Trend

An increasing trend may indicate an over-reliance on loan funding for capital works. A decreasing trend may indicate redemption of loans.

Factors influencing the indicator:

Increases in Rate Revenue either through percentage increases to ratepayers or through growth in the municipality will affect this ratio.

Council’s Ratio at 30th June 2017: 26.77%

Council’s Group Ranking: 7th highest of the 19 Councils

Commentary on Ratio:

This ratio is perhaps the most used debt indicator. Prudential guidelines were previously set by LGV and ratios were required to be below 80% with Councils whose ratios exceed 60% being required to evidence long term planning to reduce debt before having borrowings approved. Whilst there are now no strictly applied guidelines, many Councils continue to follow the same broad framework.

Council’s debt sits well above both the group and State-wide averages, although at 26.8% of Rate Revenue the debt level is considered low to moderate and thus there remains some flexibility in terms of additional loan funds in order to meet the capital works program. The 2017/18 forecast indicates new borrowings of $4321M.
4.4 Total Liabilities / Net Realisable Assets

Explanation

This ratio measures indebtedness (total liabilities) to the asset base backing the liability, (contrasting the magnitude of the liabilities to the magnitude of the asset base).

Warning Trend

An increasing trend may indicate an over-reliance on loan funding for capital works. A decreasing trend may indicate redemption of loans.

Factors influencing the indicator:

The level of realisable assets impacts on this ratio. Also the debt repayment strategy will affect the trend.

Council’s Ratio at 30th June 2017: 12.58%

Council’s Group Ranking: 7th lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

This ratio endeavours to contrast indebtedness in terms of total liabilities, against the asset backing available to re-pay the debt if necessary. Council’s average remains below the group average and slightly above the average outcome State-wide. The 2017/18 forecast reflects $4.321M new loans.
4.5  Proceeds from New Borrowings / Cash Inflows

Explanation

This ratio measures the proceeds from new borrowings as a percentage of all cash inflows as recorded in the Statement of Cash Flows.

Warning Trend

An increasing trend would indicate higher reliance on borrowings which may lead to long term problems in servicing such debt and impacts on the ability to provide other services.

Factors influencing the indicator:

Nil borrowings at any Council will lower the average.

Council’s Ratio at 30th June 2017: 2.70%

Council’s Group Ranking: 4th highest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Having taken out new borrowings of $2.591M in 2016/17, Bass Coast is again ranked at fourth highest of the group for this ratio outcome (2015/16: fourth highest), with 6 of the 19 Councils raising new loans in the 2016/17 year. Note that Council is forecasting to borrow a further $4.321M during 2017/18.

As an industry, Local Government has trended lower in terms of indebtedness and willingness to use debt funding as a means of financing capital expenditure, with borrowings in recent years largely associated with the defined benefits superannuation liability (repaid in 2014/15).
5. ASSET KEY PERFORMANCE INDICATORS

5.1 Operating Surplus (Deficit) / Total Assets

Explanation:
This ratio indicates the proportion of total revenue raised that is retained as Operating profit.

Warning Trend:
An inability to record a positive ratio may indicate long-term sustainability issues for Council to address. A negative ratio indicates the asset base is being eroded.

Factors influencing the Indicator:
In calculating the performance of Council, the Operating Statement result disclosed in the Annual Report has been adjusted to discount the effect of sale of assets, assets contributed by developers, capital income and the net effect of any asset revaluation / write off. The adjusted outcome is therefore a true reflection of the Councils performance.

Council’s Ratio at 30th June 2017: 0.42%
Council’s Group Ranking: 4th lowest of the 19Councils

Graphical Presentation:

Commentary on Ratio:
Underlying operational outcome is an important measure of long-term financial sustainability and one which the Auditor-General pays particular attention to (although measured using a different methodology than Strategy Plus).

Bass Coast’s performance in this ratio has improved in 2016/17 recording an underlying operating surplus for the first time since 2011/12 (and the 2017/18 forecast indicates another surplus result.) Council cannot sustain continued operating deficits and this turnaround is a positive step towards long term financial sustainability. Note only one of the 19 Councils, in the Large Rural group recorded an underlying deficit in 2016/17.
The graph presented below highlights in **straight dollar terms** the various underlying operating results recorded by the Large Rural Council grouping in 2016/17.
5.2 Total Assets / Rateable Properties

Explanation

Determines the amount of Council assets per rateable property.

Warning Trend

A decreasing trend may indicate the declining useful lives of assets that are not being replaced by Council via capital expenditure.

Factors influencing the indicator:

The policies that various Councils adopt in terms of what constitutes capital expenditure, varying approaches to estimating replacement costs and differing depreciation rates (useful lives) may affect this ratio by changing the Total Assets figure.

Council’s Ratio at 30th June 2017: $21,471

Council’s Group Ranking: 2nd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Bass Coast’s ratio in this area remains significantly lower, across the trend period, than for the average of the group and State-wide. Council’s variance occurs across both realisable and non-realisable asset groupings, with Council holding $8,400 of realisable assets and $13,071 of non-realisable assets on a per assessment basis compared with the group averages of $8,836 and $22,564 respectively. Council needs to ensure that its recognition and valuation of assets is appropriate for local conditions.

The value of Land under Roads included in Council’s accounts may be causing skewed results. Whilst the benchmarking data includes this figure as non-realisable assets, the method of valuation and the extent to which data has been accounted for is inconsistent across Councils.
5.3 Unrestricted Cash (as % of Current Liabilities)

Explanation
This ratio has replaced the Adjusted Working Capital Ratio (which was Current Assets over Liabilities adjusted by the Long Service Leave provision in current Liabilities). Unrestricted cash is calculated as cash net of i) cash and financial assets that are not discretionary (e.g. conditional grants, statutory reserves); ii) cash on hand that will be used to fund carry forward capital works in the following year. No adjustment is made for change to treatment of LSL current portion. Expected band for this measure is 50% - 100%.

Warning Trend
A decreasing trend, and in particular a ratio below 50%, may indicate Council cannot meet its current debt obligations (i.e. debts that will be due within the current twelve month period).

Factors influencing the indicator:
The level of conditional grants, cash funds held in Discretionary Reserves and funds committed to capital works incomplete at balance date.

Council’s Ratio at 30th June 2017: 176.71%
Council’s Group Ranking: 6th highest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
Bass Coast’s unrestricted cash ratio is sixth highest of the group, significantly above the group and State averages. The expected range for Councils to achieve is 50% - 100%.

Strategy Plus calculates an accumulated cash result which estimates the residual amount of current assets (excluding land held for resale) after deducting current and non-current liabilities (excluding indebtedness and landfill provisions) and reserve funds (excluding asset revaluation reserve). Using this Balance Sheet calculation, Council records an accumulated cash deficit of $7.756M in 2016/17 (2015/16: $7.242M deficit). The 2017/18 forecast is for an accumulated cash deficit of $7.139M.
5.4 Total Depreciation / Total Assets

Explanation

This ratio compares the total amount of depreciation charged as a percentage of the Total Assets base. Preferably the Total Assets should be less any non-depreciable assets such as land but to enable comparability across Councils, Total Assets had been used.

Warning Trend

A lower than average outcome may indicate that Council’s depreciation rates are too low (i.e. that Council is assuming assets will have a longer useful life than those in comparable municipalities). A higher than average trend may indicate that Council is ‘over-depreciating’ and useful lives are too short.

Factors influencing the indicator:

The assumptions made by each Council on useful lives of assets, and therefore depreciation rates used will influence outcomes. It is important that each Council thoroughly consider local conditions that impact on outcomes at an individual Council level.

Council’s Ratio at 30th June 2017: 2.12%

Council’s Group Ranking: 9th lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

At 2.12% in this ratio, Bass Coast is around the average for Councils both in the grouping and State-wide. Given the wide variation between Councils in the level of depreciable and non-depreciating assets however, it is the following ratio that is perhaps more relevant.
5.5 Depreciation on Infrastructure / Total Infrastructure Assets

Explanation

This ratio compares the total amount of depreciation charged on infrastructure assets as a percentage of the Total Infrastructure Assets base.

Warning Trend

A lower than average outcome may indicate that Council’s depreciation rates are too low (i.e. that Council is assuming assets will have a longer useful life than those in comparable municipalities. A higher than average trend may indicate that Council is ‘over-depreciating’ and useful lives are too short.

Factors influencing the indicator:

As per Section 5.4

Council’s Ratio at 30th June 2017: 2.41%

Council’s Group Ranking: 9th highest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Whilst similar to the previous ratio, this indicator looks solely at infrastructure assets to provide a checking mechanism that depreciation in this category is equivalent to like Councils.

Bass Coast's ratio outcome is at the group average, and just below the State-wide average. It is important that Council continually reviews the outcome for this ratio and ensures useful life assumptions are appropriate for local conditions.
6. CAPITAL OUTLAYS KEY PERFORMANCE INDICATORS

6.1 Total Capital Outlays / Total (Cash) Expenditure

Explanation
This ratio presents the total capital outlays as a percentage of total cash expenditure. Total cash expenditure is calculated using the Adjusted Total Expenditure and then deducting depreciation and adding back capital works expenditure.

Warning Trend
A decreasing trend may indicate an inability to renew assets as they reach the end of their useful lives. This indicator measures the total capital spend and includes funding of new assets in addition to asset renewal.

Factors influencing the indicator:
The consumption of non-recurring capital income such as large capital grants for individual projects, undertaking of borrowings and the use of Council reserve funds affect this measure significantly. Major projects that occur periodically and attract external funding will cause spikes in this ratio.

Council’s Ratio at 30th June 2017: 18.17%
Council’s Group Ranking: 2nd lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:
This ratio is one of the most critical in the data-set in terms of Council being in a position to both provide adequately for the renewal of its existing assets and meet community expectations in regard to new assets.

Bass Coast’s ratio outcome has improved again in 2016/17, although remaining well below the group and State-wide averages. The 2017/18 forecast indicates an increase in capital expenditure. Note this forecast assumes full completion of the capital works program (which is rarely the case).
6.2 Total Capital Outlays per Assessment

Explanation

The ratio presents the total capital outlays per rateable assessment.

Warning Trend

A decreasing trend would indicate that cash outflows are not being used to create long term assets for future service provision and it would cast doubt about the long term viability of Council as assets reach the end of their useful lives.

Factors influencing the indicator:

As per Section 6.1. In addition this ratio will be affected by Council growth in rateable assessments. (Or lack of growth)

Council’s Result at 30th June 2017: $415

Council’s Group Ranking: Lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:

Following on from the previous section, Council’s performance in this ratio has slightly improved in 2016/17, although it remains well below the average for the group and State-wide. The 2017/18 forecast indicates a greater level of spending on capital works. As mentioned previously, this forecast is however based on 100% completion of the capital program with no carried forward works.
The graph presented below highlights in straight dollar terms the various Capital Expenditure results recorded by the Large Rural Council grouping in 2016/17.
6.3 Capital Expenditure on Renewal / Total Depreciation

Explanation

This ratio presents the total capital expenditure on asset renewal and asset upgrade as a percentage of total depreciation.

Warning Trend
An indicator of less than 100% may indicate that Council is not sustaining its asset base.

Factors influencing the indicator:

The influencing factors for this ratio are quite varied. All of the issues relating to capital funding outlined in the previous two sections are applicable as are those relating to depreciation rates, assumptions on useful lives of assets and what represents capital spending. Further, several Councils have not separated Asset Upgrade expenditure from new asset expenditure. All those issues aside, the ratio still presents a useful snapshot of Councils performance.

Council’s Ratio 30th June 2015: 81.47%

Council’s Group Ranking: 5th lowest of the 19 Councils

Graphical Presentation:

Commentary on Ratio:  
Whilst it is noted that there are issues with using depreciation (particularly given varying industry practices) as the benchmark in this instance, it still represents a reasonable first point of comparison with the expenditure being undertaken on asset renewal/upgrade.

Council’s performance in this ratio has been well below that of its grouping and State-wide, over the trend period. Councils need to achieve an average of at least 100% for this ratio outcome to position themselves well in terms of replacing assets as they fall due for replacement. Bass Coast is forecast to improve its ratio outcome in the 2017/18 year, at a level significantly above the last few years and closer to the 100% target (noting forecast assumes full completion of Capital program).
6.4 Total Capital Outlays / Total Rate Revenue

Explanation

This ratio presents the total capital outlays as a percentage of total rate revenue.

Warning Trend

A decreasing trend may indicate that the cost of providing operational services is consuming more of the rate revenue base, leaving fewer funds available for asset replacement/ renewal.

Factors influencing the indicator:

As per previous capital works sections. Councils rating strategy and levels of rate increases will impact on this ratio.

Council’s Ratio at 30th June 2017: 24.12%

Council’s Group Ranking: Lowest of the 19 Councils

Graphical Presentation:

![Graphical Presentation of Capital Exp / Rate Revenue]

Commentary on Ratio:

This ratio measures the conversion of rate dollars into capital spending. Bass Coast’s performance in this ratio at 24.12% in 2016/17 remains well below both the group and State-wide averages. While the 2017/18 forecast indicates an improvement on current levels, it remains below the current group and State averages (and this forecast assumes 100% completion of the Capital program).

Funds available from operating activities (as discussed in 3.3 Net operational surplus) impacts greatly on the Capital expenditure ratios. The level of operational services provided needs to be considered in light of the Capital funding requirements that will ensure assets are maintained and replaced as and when necessary.
7.0 FINANCIAL SUSTAINABILITY INDICATOR

Strategy Plus has developed an overall financial sustainability indicator which has been developed to assist with ascertaining council's financial health. The below text and graph outline the various components of the indicator including the inherent limitations that have been faced in developing this approach.

Putting the Financial Sustainability Indicator in Context - The PRO's and CON's

The definition and measurement of financial sustainability is frequently a topic of much discussion within Local Government and is not without a degree of debate as to its relevance and accuracy. The following comments provide important context in understanding the approach that Strategy Plus has used in calculating the Financial Sustainability Indicator. Just as importantly, it provides some indications of the advantages and limitations of the approach adopted, given it has been restricted to information that is simply available from audited annual reports.

It must be remembered at the outset that this is simply a measure of FINANCIAL sustainability and not one of COMMUNITY sustainability and well being. A Council that devotes 100% of its capital funding to renewal may well score positively in the context of its financial sustainability but may not be in a position to deliver the much needed future services and facilities desired by its constituents. Conversely, Councils that may score poorly in a financial context may be delivering an excellent local government service from a community needs perspective.

It should further be noted that the indicator is derived solely from the information contained in Annual Reports and may therefore not accurately reflect other information that is known only to any particular Council. Future cash inflows from developers is, for example, one element that is unable to be captured in this process. The FSI’s calculated are a measure of sustainability as at 30 June 2017.

From a purely financial analysis approach, the FINANCIAL sustainability indicator presented below has used an indexed scoring system for four key elements of financial performance. Each element is scored and then the sum of the scores is represented as the overall Financial Sustainability Indicator.

The four elements utilised are:

- Underlying Operating Result as % of Total Assets
- Accumulated Cash as % of Adjusted Total Revenue
- Debt as % of Own Source Revenue
- Asset Renewal as % of Depreciation

Underlying Operating Result as a % of Total Assets

The underlying operating result has been assessed following the removal of gifted assets, developer contributions, asset revaluations and write offs and the impact of the sale of fixed assets. Capital income has further been deducted on the grounds that this represents an "unmatched" income, with the expenditure not being included, and is a non-recurring income source. The aim has been to reach the underlying 'operational' position and then to assess whether this had added to the net asset base of Council or eroded this base. It is appreciated that various sustainability reviews have adopted differing positions in respect of capital income.

Accumulated Cash as a % of Adjusted Revenue

The purpose of this indicator has been to acknowledge and recognise the strong cash position of many Councils despite perhaps not performing as well in other indicators. Obviously if a Council has $50M in discretionary Council Reserves or accumulated cash surplus (for example) it is in a strong position to meet the immediate financial challenges. The approach taken has been to measure the degree to which Revenue (adjusted for abnormal items) funds the Current and Non-Current Liabilities (excluding loans). The residual current asset base (described as accumulated cash) is then expressed as a percentage of Adjusted Revenue.

Debt as a % of Own Source Revenue

This ratio is simply about the degree of flexibility that Council has available to it in the future to utilise borrowings as a key source of funding for capital works. Obviously the higher amount of existing debt, the less flexibility Council will have in using this funding source.

Asset Renewal/Upgrade as a % of Depreciation (for 10 years)

Asset Renewal and Asset Upgrade figures have been obtained from the Capital Expenditure note and expressed as a percentage of Depreciation. This ratio provides a far more accurate view than utilising Total Capital spend compared to Depreciation. The limitation of this approach is however that it doesn’t indicate the existing level of infrastructure backlog that individual Councils may have. As each year passes the accumulated result (Renewal and Upgrade compared to depreciation) is calculated - this year the total for the last 10 years has been used. It must also be acknowledged that there remains a great deal of industry disparity in terms of approaches to depreciation rates and asset useful lives.

Strategy Plus acknowledges the below source of work may be the subject of considerable debate. It does however consider the formation of a financial sustainability indicator to be an important step in assessing Councils state of financial health. Long Term Financial Plans that take into account local issues and information not available through Annual Reports, will give better indications of sustainability into the future.
Bass Coast Shire Council Bass Coast Shire Council Bass Coast Shire Council Bass Coast Shire Council

FINANCIAL KPI analysis

2016/17

Bass Coast’s performance in the sustainability indicator is fourth lowest of the Large Rural Councils group, as highlighted below.

The lower than average outcome for this FSI result is due to Council spending well below the average of its group and State-wide, in terms of asset renewal and upgrade. Bass Coast achieved a positive result for the Accumulated Cash/Adjusted Revenue ratio and Indebtedness/Own Source Revenue ratio, plus the achievement of an Underlying surplus this year, resulting in the overall outcome of a small positive score for the Financial Sustainability Indicator as measured by *Strategy Plus*.

Although Council is forecasting a much greater level of asset renewal expenditure in 2017/18, this is dependent on the amount of projects actually completed and the level of carry forward works.

### Bass Coast’s Sustainability Indicator

<table>
<thead>
<tr>
<th>Component</th>
<th>Result</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Operating Result/Total Assets</td>
<td>0.42%</td>
<td>0.50</td>
</tr>
<tr>
<td>Accumulated Cash Position/Adjusted Revenue</td>
<td>38.56%</td>
<td>3.00</td>
</tr>
<tr>
<td>Indebtedness/Own Source Revenue</td>
<td>23.28%</td>
<td>1.00</td>
</tr>
<tr>
<td>Asset Renewal &amp; Upgrade as % of Depreciation (over 10 yrs)</td>
<td>96.21%</td>
<td>(0.50)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4.00</strong></td>
<td></td>
</tr>
</tbody>
</table>