



Proposed Annual Budget 2020/21

Adoption in principle 19 May 2020

Easy to read budget guide

Introduction

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

We are also responsible for over \$2 billion dollars of community assets and infrastructure, which requires ongoing maintenance, renewal, and replacement.

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

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

The purpose of this guide is to:

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

Highlights of the 2020/21 budget

Our 2020/21 Budget has been prepared in challenging and uncertain times. In the midst of the global coronavirus (COVID-19) pandemic, we have had to make some difficult but necessary decisions to support our community and ensure the financial sustainability of Council for coming years.

Our biggest challenge while developing this year’s proposed budget was ensuring that we continue to deliver all our essential services, while simultaneously supporting Yarra’s community through COVID-19 and into the recovery phase.

The biggest highlight of this proposed budget is the continued funding of our \$7.46 million COVID-19 Community and Economic Support Package. The package provides financial assistance for the residents and businesses hardest hit by COVID-19 and support for our creative and sporting communities. It is designed to sustain the Yarra community during the challenging months ahead.

Yarra City Council – a Guide to Yarra’s Proposed 2020/21 Annual Budget

We have prepared our proposed budget 2020/21 after holding four early engagement public feedback sessions. This has helped us understand what our community’s priorities are. Additionally, there is a 28 day community consultation period commencing when the budget is adopted in principle. During this time there will an opportunity for our community to provide written submissions on the Proposed 2020/21 Annual Budget, as well as a number of opportunities for our community to engage with Councillors and Officers through further Community consultation.

This budget includes \$30.5m worth of capital works and new initiatives, including upgrades and renewals for facilities cherished by their local communities:

- \$9.24m towards Councils road and footpath renewals program
- \$8.08m towards Councils building renewals program
- \$0.8m towards the reconstruction of bluestone laneways
- \$0.6m for the redevelopment of Ryan’s Reserve pavilion and public toilets
- \$0.6m for new library resources
- \$0.5m to commence work on the redevelopment of Brunswick Street Oval

The below table provides a financial snapshot of the 2020/21 Budget.

Financial Snapshot

	Forecast Actual 2019/20 \$ million	Budget 2020/21 \$ million
Total Revenue	197.02	193.41
Total Expenditure	186.60	197.36
Comprehensive Operating Result	62.63	(3.94)
Adjusted underlying result	2.27	(13.10)
Operating cash result	30.98	13.26
Capital Works Program	37.30	30.54
Funding the Capital Works Program		
Council	33.22	25.78
Grants	2.99	4.17
Open Space Reserve contributions	1.09	0.59
Borrowings	-	-

Note: The COVID-19 pandemic has had the following impacts on Council’s budgeted 2020/21 financial performance and position:

- A fall in budgeted Total Revenue for 2020/21 in comparison to the 2019/20 forecast due to the impact of a downturn in economic activity on some of Council’s key revenue streams including statutory fees and fines and user fee income.
- An increase in budgeted Total Expenditure for 2020/21 in comparison to the 2019/20 forecast due to the inclusion of Council’s community and economic relief package.

- A decrease in Council’s adjusted underlying result and Operating cash result for 2020/21 in comparison to 2019/20 forecast due to factors discussed above.
- A decrease in Council’s Capital Works Program due to the deferral of internally funded new initiatives and discretionary projects. These projects have been deferred to Council’s Mid-year Budget review, where a detailed process is planned to determine any available funding that can be diverted towards funding these projects.

Budget at a glance

- \$193m total operating revenue
- \$197m total operating expenditure
- \$30m for capital works projects
- Average rates to increase by the 2020/21 rate cap – 2%
- 2% increase in the Yarra rate rebate for pensioners (now \$190.90)

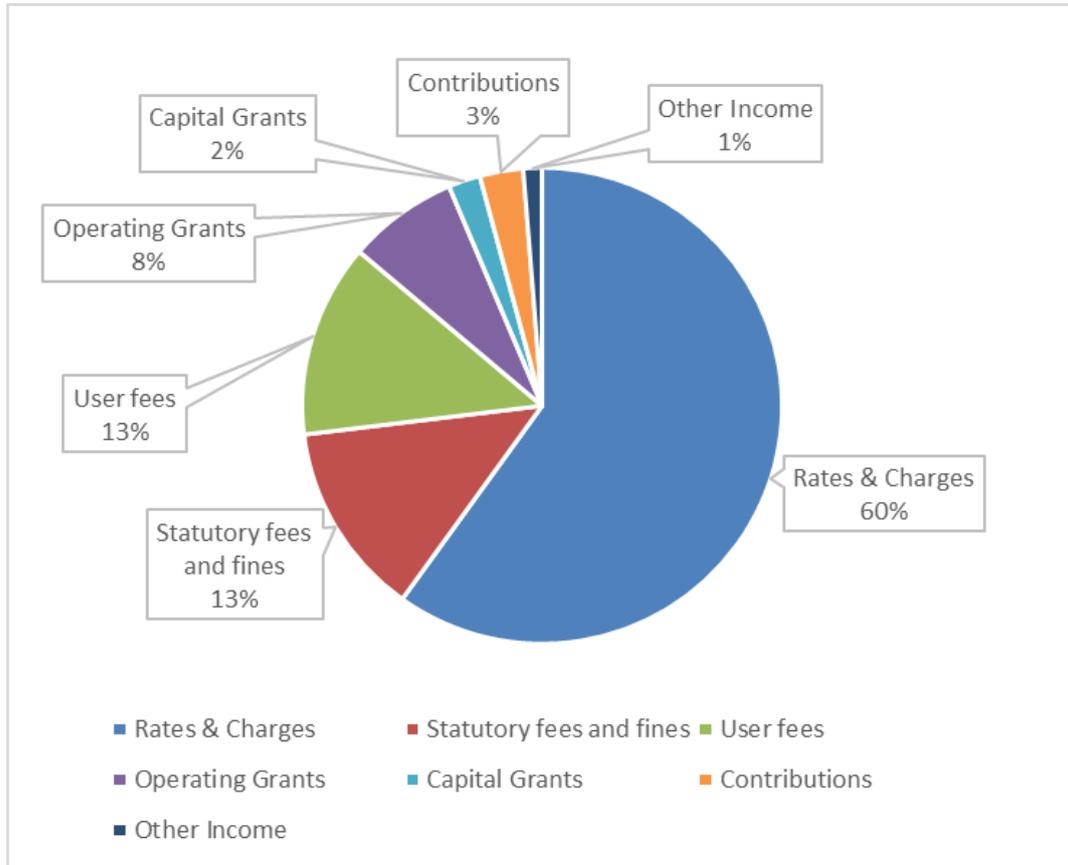
Where our money comes from

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

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

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

Sources of income for 2020/21



- The proportion of Council’s total income sourced from rates has increased from 2019/20. The reason being that Council rates have increased in line with the State government rate cap of 2%, whilst other income sources such as Statutory fees and fines and User fees have declined as a result of the COVID-19 pandemic.

Where our money goes

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

Council recently announced a \$7.46 million community and economic relief package to support the Yarra community in dealing with the impacts of the COVID-19 pandemic. This package is a major initiative and key highlight of the 2020/21 budget.

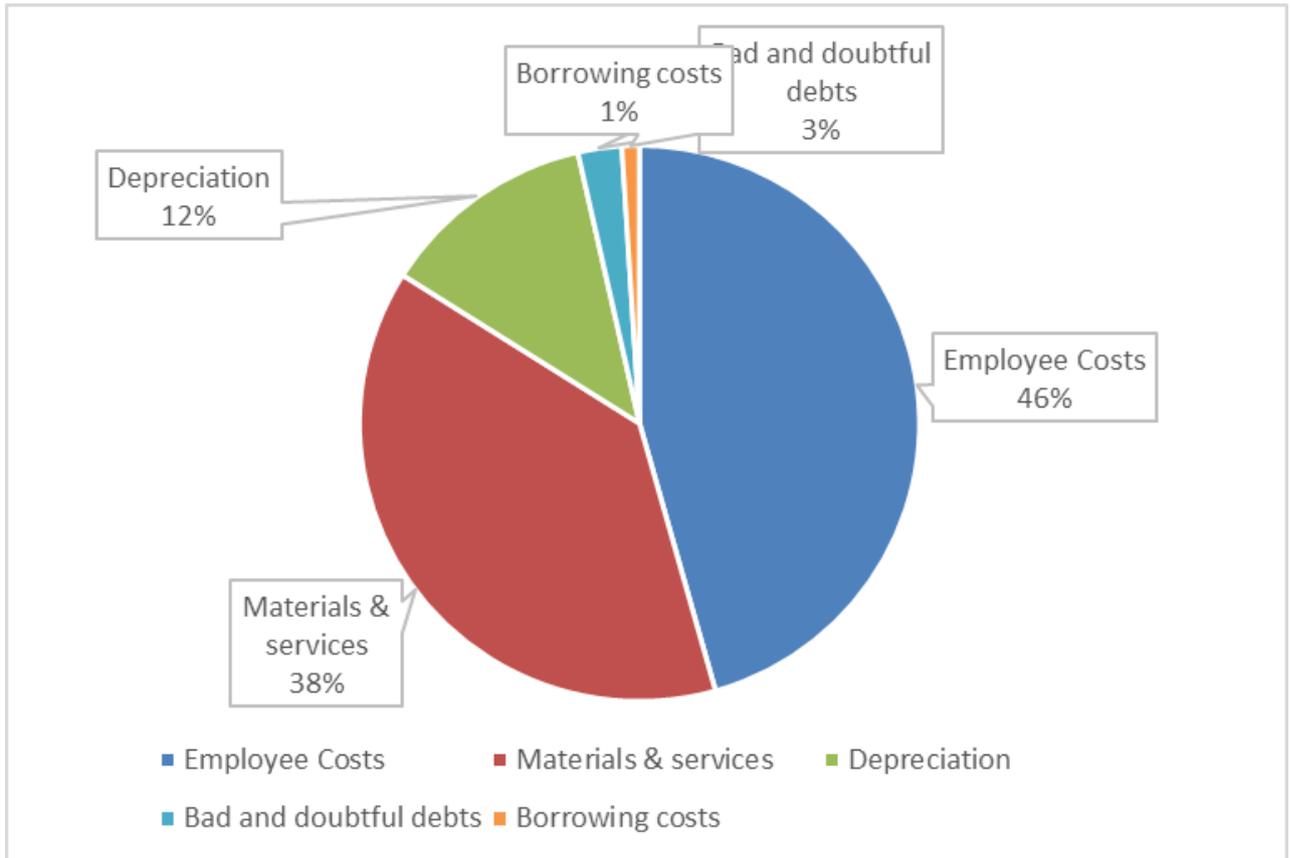
In addition to this, we spend funding in the ordinary course of business in the following areas:

- a) Paying our employees
 - b) Materials and services
 - Contract payments e.g. Waste management;
 - Maintenance costs;
 - Utilities costs;
 - Information Technology costs
 - c) Bad and doubtful debts (non-cash)
 - d) Depreciation and amortization (non-cash)
 - e) Borrowing costs
 - f) Other general expenses
 - g) Capital works
- a) through to f) of the expenditure above are captured in the Income Statement.
 - g) Capital Works are captured in the Capital Works Statement. The financial statements are explained in more detail further on in this guide.

Expenses for 2020/21

The chart below shows our expenditure for Yarra from the 2020/21 budget.

The chart highlights that 96% of council operating expenditure is consumed by staff, materials and services and depreciation. This is consistent with Yarra’s crucial role in the delivery of local services and maintenance of its infrastructure.



Capital works

We are responsible for over \$2 billion dollars of assets and infrastructure, which requires ongoing maintenance, renewal, and replacement. These works are delivered through our Capital Works Program.

How we plan to spend our \$30.5m capital works budget

The vast majority of the funds (\$29.6 million) will be used to renew or upgrade ageing assets such as roads, footpaths, drains, buildings and parkland.

The balance of \$0.9m is available this year to fund upgrade and new capital works projects. Due to the COVID-19 pandemic, Council made the fiscally responsible decision to postpone all internally funded new initiative and discretionary projects until the financial impact of COVID-19 can be fully assessed.

Throughout the course of the 2020/21 financial year Council will undertake a formal review of its Annual Budget. This will allow for a more in-depth assessment and understanding of the financial impacts of COVID-19 on Council’s operations, further it will enable an assessment of whether some of our new initiative and discretionary projects can be brought forwarded and funded in the 2020/21 year.

How we know what to prioritise

Asset Management Registers

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

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

Council Plan and Annual Budget

Informed by community feedback and suggestions, our Council Plan outlines the additional capital works projects that we plan to complete from 2017–21.

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

Special funding

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

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

Our debts

As at the end of last financial year (2019/20), we have loan debt of \$42.5 million.

We have two loans that account for this debt:

Initial Loan amount	Purpose	Type of loan	Financial year loan was taken up
\$13.5 million	To fund the construction of the state of the art Bargoonga Nganjin, North Fitzroy Library.	10 year principal and interest loan.	2016/17
\$32.5 million	<p>To fund our investment in the property at 345 Bridge Road, Richmond.</p> <p>To service the Defined Benefit Superannuation Scheme Liability.</p> <p>Note: As we have insufficient cash reserves to fully repay this loan, we will need to refinance this amount. This is in the Long Term Financial Strategy as an additional borrowing, which we plan to repay as a principal and interest loan, payable over 10 years.</p>	7 year interest only loan.	2014/15

The financial statements explained

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

These are:

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

The statements and their purpose are outlined below.

Comprehensive Income Statement

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

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

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

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

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

Balance sheet

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

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

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

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

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

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

Statement of changes in equity

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

Statement of cash flows

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

We are a non-profit entity. Ideally the cash net movement is a minor increase each year as that indicates we are sustaining a balanced budget. In Yarra’s case, we should be working towards an increase each year in order to build our cash reserves so that council has the capacity to respond to out of the ordinary financial expenses.

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

Statement of capital works

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

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

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

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

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

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

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

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

Statement of Human Resources

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

The summary of human resources expenditure table in this statement will not equal the employee costs in the Comprehensive Income Statement as Council capitalises employees costs where allowed under Australian Accounting Standards, therefore removing as a cost from the Comprehensive Income Statement.