



WARRNAMBOOL
CITY COUNCIL

Warrnambool City Council
Long-Term Financial Plan 2020-2029

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Purpose

The long term financial plan has been developed to provide the following outcomes for Warrnambool City Council:

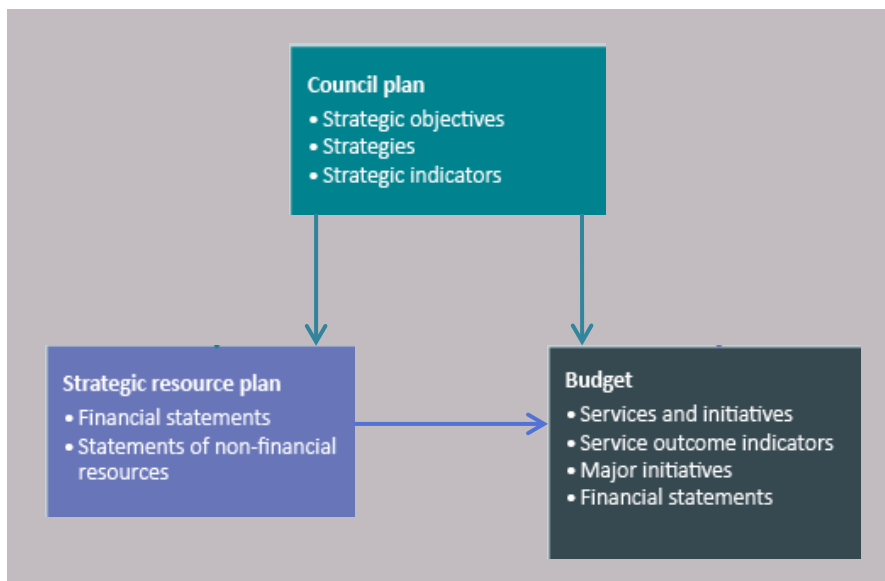
- establish a prudent and sound financial framework, combining and integrating financial strategies to achieve a planned outcome
- establish a financial framework against which Council's strategies, policies and financial performance can be measured against
- ensure that Council complies with sound financial management principles, as required by the Local Government Act (1989) and plan for the long-term financial sustainability of Council (Section 136)

The long-term financial plan will be utilised to facilitate the strategic planning of projects and initiatives which deliver outcomes against the Council Plan and Community Plan (Warrnambool 2040).

Background

The *Local Government Act 1989* (the Act) requires council to prepare a strategic resource plan (SRP) for at least the next four financial years that describes both the financial and non-financial resources required to achieve the strategic objectives in the council plan. In preparing the SRP, council must take into account services and initiatives contained in any plan adopted or proposed to be adopted by council.

The SRP forms part of Councils integrated planning framework as set out below.



The council plan includes the strategic objectives, strategies for achieving these for at least the next four years and strategic indicators for monitoring achievement of the strategic objectives. The SRP is a plan of the resources for at least the next four years required to achieve the strategic objectives in the council plan. The SRP informs the preparation of the budget which is a plan that describes the services and initiatives to be funded and how they will contribute to the achieving the strategic objectives in the council plan.

The long-term financial plan aims to build on the SRP and provide a longer term outlook of Councils financial sustainability.

Objectives of the plan

The overall objective of the long-term financial plan is to ensure financial sustainability in the medium to long term, while still providing sufficient resources to achieve the council plan strategic objectives. The key objectives which underpin the SRP over the next four years are:

- Achieve at a minimum a breakeven adjusted underlying result;
- Maintain existing services and service levels where practicable;
- Achieve a balanced budget on a cash basis;
- Meet councils asset renewal requirements;
- Hold sufficient cash and other assets to meet payment obligations as they fall due;
- Maintain debt at moderate levels to allow capacity to fund future infrastructure.

In preparing the long-term financial plan, council has also been mindful of the need to comply with the principles of sound financial management in the Act which requires council to:

- prudently manage financial risks relating to debt, assets and liabilities;
- provide reasonable stability in the level of rate burden;
- consider the financial effects of council decisions on future generations;
- provide full, accurate and timely disclosure of financial information.

How the plan was developed

This long-term financial plan has been developed through a rigorous process and is based on the following key information:

- audited financial statements as at 30 June 2017;
- assumptions provided by council service providers about changes in future income and expenditure;
- assumptions provided by council capital works expenditure providers about requirements for future asset renewal, expansion, upgrade and new assets;
- assumptions provided by finance regarding future changes in assets, liabilities and equity;
- information provided by the executive management team and council.

The financial projections included in the long-term financial plan have been developed using a 'four-way' budget model. This methodology enables the linking of the comprehensive income statement, balance sheet, statement of cash flows and statement of capital works.

Assessment of council's current financial position

An assessment has been undertaken of the council's current financial position to identify any significant matters which may impact on the long-term financial plan. A summary of the budgeted and forecast financial results for the 2019-20 year are in the following table.

Result	Adopted Budget 2019 \$'000	Forecast Actual 2019 \$'000	Variance Fav/ (Unfav) \$'000
Surplus/(deficit) for the year	7,060	8,707	1,647
Underlying Surplus/(deficit) for the year	246	(107)	(353)
Cash and investments	11,041	13,026	1,985
Capital works expenditure	18,835	21,749	(2,914)

An underlying deficit of \$0.11 million is forecast to be achieved, compared with an original budgeted underlying surplus of \$0.25 million. The forecast \$0.35 million unfavourable variance is mainly due to the rollout of the Food Organics Green Organics (FOGO) service which was due to be delivered over 3 years. The rollout was brought forward as the Council received a State Government grant for the partial supply of

the bins and the additional costs incurred in the rollout will be recouped over the next 4 years in the Waste Management charge.

Cash and investments are forecast to be \$10.88 million compared with an original budget of \$13.63 million. The forecast \$2.75 million unfavourable variance is primarily due to the completion of the majority of our 2017-18 capital works program.

Capital works expenditure is forecast to be \$21.75 million compared with an original budget of \$18.84 million. The forecast \$2.91 million variance is due to the timing of the CBD renewal project.

Significant matters arising from the assessment of council's current financial position, which are expected to impact on the long-term financial plan includes:

- the \$18 million CBD renewal project has been completed in November 2018 and will increase the level of maintenance, cleaning and asset renewal in this area;
- the changes in the recycling industry continue to have a significant impact with Council currently in the procurement process for a recycling disposal service as well as exploring various options;
- Grants have been announced for the joint construction with TAFE for a learning centre and the upgrade of the Reid Oval, both these projections will increase the operating costs in future years;
- it is expected that the value of the carried forward capital works expenditure would be approximately \$2.00 million.

Key challenges in the long-term financial plan

The revision of the long-term financial plan represents a critical strategic document for Warrnambool City Council. The key challenges are Council's ability to continue to deliver a wide range of services to the region along with maintaining and upgrading assets to a regional standard whilst preserving the long-term financial sustainability.

In the face of a new legislative environment however, the challenges in this LTFP are very much around what actions Council can take to mitigate the very significant impacts of a restriction on Council's ability to raise revenue into the future.

Capping of Council rates

The Victorian Government has established the Fair Go Rates System (FGRS), which restricts Council from increasing rate income in a year. Each year the Minister for Local Government will set the rate cap that will specify the maximum increase in councils' rates and charges for the forthcoming financial year. Where the level of income raised under the rate cap is insufficient to meet specific needs, councils can apply to the Essential Services Commission for a higher cap.

The Minister for Local Government announced that Victorian council rate rises would be capped to the rate of inflation in the 2019-2020 financial year. That is, the Consumer Price Index (CPI) as published by the Victorian Department of Treasury and Finance, which is 2.50 per cent for the 2019-2020 financial year.

Council has made the decision to apply to the Essential Services Commissions for a variation to rate cap. This is mainly due to the following reasons:

- Asset renewal gap widening
- Increased pressure to continue delivering regional services
- Increased pressure on funding regional infrastructure
- Increased operating costs to run the future regional library

The table below shows the assumed rate increases in the long-term financial plan.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	%	%	%	%	%	%	%	%	%	%
General Rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Rate cap variation	2.00	2.00	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Waste Management Charge	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Total Rates & Charges (\$'000)	39,938	41,879	43,915	46,049	47,507	49,009	50,558	52,154	53,799	55,495

Cost Shifting

Recurrent grants (inclusive of the Grants Commission funding) form approximately 20 per cent of Council's total underlying operational revenue and hence are an important source of revenue for Council.

Recurrent grant revenue however has consistently failed to keep pace with the cost of providing these same services that the grant supports, therefore requiring council to continue to 'top-up' the Victorian and Australian government shortfall with rate funding in order to continue to provide the current levels of services to the community.

Key assumptions

There are a number of assumptions underlying the forecasts for income, expenditure, assets, liabilities, equity, cash, capital works expenditure and human resources included in the long-term financial plan.

These assumptions have been derived from the following sources:

- assessment of the current financial position;
- scan of the external economic environment;
- forecast changes in population and demographics;
- advice from officers responsible for service and capital works planning and delivery;
- services and initiatives contained in plans adopted or proposed to be adopted by council.

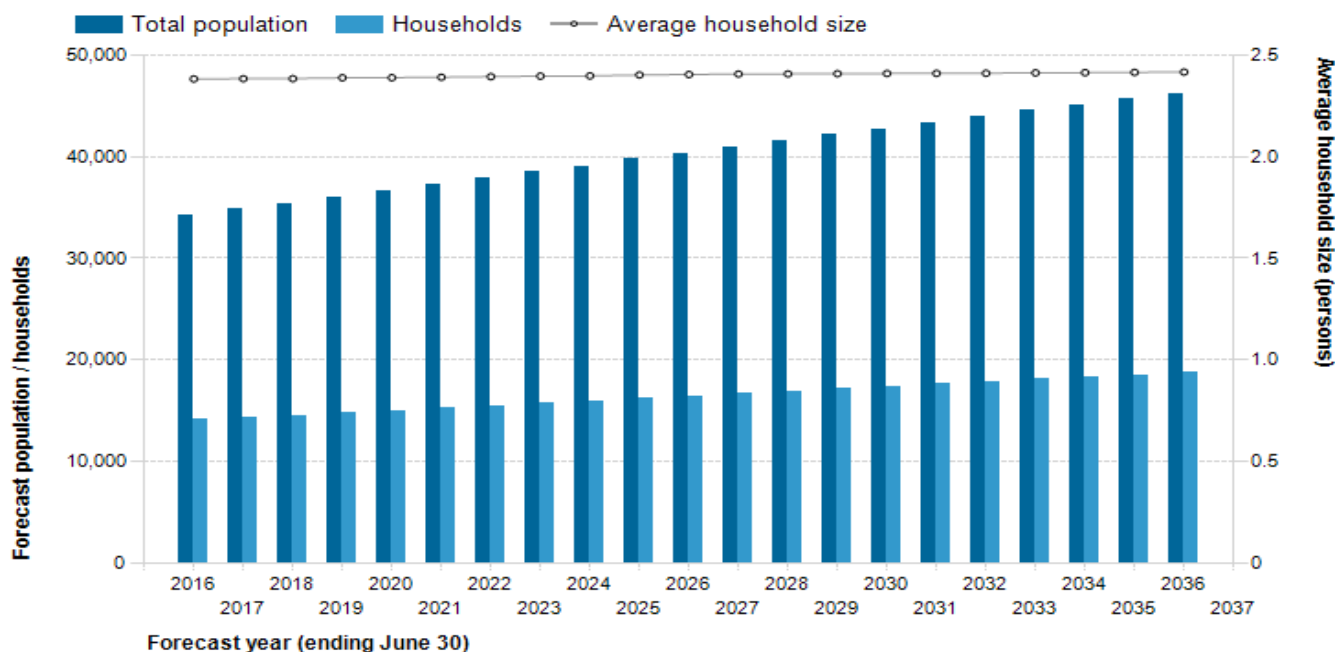
Key assumptions underlying the long-term financial plan are set out below.

Population

The population of Warrnambool City is predicted to grow from 34,243 (2016) to 46,209 (2036) with growth rates in the first 5 years expected to be 1.68 per cent and slowing to 1.31 per cent by 2036.

Forecast population, households and average household size

Warrnambool City



Population and household forecasts, 2016 to 2036, prepared by .id the population experts, December 2017.



Consumer price index

For the purposes of developing the SRP, CPI has been set at 2.50 percent for the 2019-20 year as per the State Government rate cap. For all remaining years CPI is assumed at 2.5 per cent which is consistent with Department of Treasury's budget update forecast. These rates are applied to all income and expense types with the exception of those specifically identified in the above table.

Rate cap

The Victorian Government requires local government rates to be capped from 2016-17 onwards. The cap for the 2019-20 year is 2.50 percent and based on the state-wide CPI projections is likely to remain at 2.5 per cent for the remaining forecast period.

Rating strategy

Warrnambool City Council adopted its revised rating strategy in 2017.

Warrnambool City Council applies Capital Improved Value (CIV) rating methodology along with a differential rating system to ensure equitable distribution of rates and charge across each rating class.

Rate cap variation

The long-term financial plan is based on a successful rate cap variation of 2 per cent above the rate cap for 2019-20 to 2021/22.

Wages growth

The current collective wage agreement applies to wage rate changes for the period of 1 July 2016 to 30 June 2019. The agreement is an increase of 2.3 per cent or \$30 per week and with banding increments this equates to overall increase of 3.0 per cent per annum. Council is currently negotiating a new agreement, with the long-term financial plan assuming an increase of 1.5 per cent per annum over the next three years, well within the expected CPI range.

While negotiating in good faith, Council is aware its long-term financial plan is predicated on a containment of wages growth and regardless of the outcome of the agreement, Council is committed to the 1.5 per cent figure as a strategic objective. Council has achieved this over 2017-2018 with wages growth of 0.98 per cent.

Grants (operating)

Council receives approximately \$14.19 million annually in operating grants from State and Commonwealth sources for the purposes of funding the delivery of services to ratepayers. This includes \$3.73 million for the 2019-20 year in financial assistance grants. Future increases in operating grants excluding the financial assistance grants have been set at CPI minus 1.5 percent in all years.

Statutory fees

Council raises approximately \$1.85 million in fees and fines which are imposed in line with legislation governing local government activities such as animal registrations and parking fines. Future increases in statutory fees have been set at CPI minus 1.0 percent in all years.

Investment return

The official cash rate is now 1.5 percent, following successive decreases by the Reserve Bank over time. Council has set its investment return at 1.0 per cent above the official cash rate for the forecast period.

Achieving cost savings

The long-term financial plan is a high level strategic plan that acts as a framework for future annual Budgets. Whilst this plan is based on the premise of continuing to deliver all present day operational services, it must be highlighted that Council intends to institute a savings approach against the framework, and will continue to identify savings in the future. Additional sources of revenue are also pursued when available or identified.

Whilst the long-term financial plan establishes a framework for the annual Budget, Council thoroughly reviews all draft operational budgets on an annual basis and seeks to achieve savings against this framework wherever possible.

Service delivery

The assumptions affecting specific services provided by council are set out below:

- service levels to be maintained at prior year levels where practicable;
- retain existing levels of subsidy for user fees where practicable (Excluding field sports users).

Recycling Acceptance and Processing

Following the recent market adjustment in the recycling industry, there is uncertainty around the pricing structure for the acceptance and processing of recycled materials. Council has assumed a higher rate for this service but will take measures to reduce the costs where possible.

Aged and disability

The funding model for aged and disability services is changing and Council needs to decide whether to compete with private organisations or transition out of the service. For the purposes of the long-term financial plan, the decision is that Council will remain providing the service. This includes domestic care, personal care, respite care and meals.

Property valuation

Following a recent State Government legislation change, property valuations will occur on an annual basis. The State Revenue Office will now be responsible for this function with Council only required to pay for the Supplementary Rate valuations.

Election costs

Council is required to fund the cost of the Council elections which occur every 4 years. The next Council election will be in October 2020 and is expected to cost \$0.21 million. An allowance of \$0.05m has been made every year to smooth the costs of the period.

Information Technology

Council recognises the need to achieve efficiencies and drive innovation throughout the organisation and to do this through the use of technology. As such Council is investing significant resources to achieve this. There is also an ongoing improvement program in the order of \$0.25 million per annum.

Supplementary rates

The municipality is expected to continue growing based on current trends in property development and the forecast growth in population. This is expected to contribute an additional \$0.20 million in rate revenue and indexed by the rate percentage increase in the following years.

Developer contributions (non-cash)

Council receives infrastructure assets from developers at no cost which are recognised as income in the comprehensive income statement. This normally occurs following the completion of a property development, where the developer agrees to construct the required infrastructure including roads, footpaths and drains. At the conclusion of the development, these assets are handed over to council. It is expected that council will receive infrastructure assets in the short to medium term from a number of new developments including North of the Merri, Hopkins Point Road, Horne Road Industrial Estate, North Dennington and North East Warrnambool. The expected value of these assets are approximately \$4.00 million per annum, however the timing of the contribution is dependent on a number of external factors such as economic growth, population growth and the discretion of developers. Therefore it is difficult to accurately forecast the contributions with the spread over the long-term financial plan being based on our current knowledge and conditions.

Grants (capital)

Council receives both recurrent and non-recurrent government funding for capital works projects. Significant capital grants are expected to be received in the near future to fund the upgrade of Lake Pertobe and Reid Oval. Both of these projects have a renewal element to them but also a significant upgrade component. Generally the State will not fund asset renewal and will focus their grant programs around new and upgraded infrastructure.

Council also receives grant funding for the upgrade of assets that it does not own. The Port of Warrnambool (State owned asset) and the new Library/Learning Centre (TAFE owned asset) are two example of grant funding that Warrnambool City Council is expecting to receive which will be utilised on assets from other entities.

General balance sheet

The general assumptions affecting assets, liabilities and equity balances are set out below:

- 98 percent of the total rates and charges raised, is expected to be collected in the year levied;
- trade creditors is based on total capital and operating expenditure less written down value of assets sold, depreciation and employee costs. The payment cycle is 30 days;
- other debtors and creditors are expected to remain consistent with 2017-18 levels;
- employee entitlements will continue to increase in accordance with the collective wage agreement outcome offset by the impact of more active management of leave entitlements of staff .

Other balance sheet

The assumptions affecting specific balance sheet items are set out below.

Borrowings

In developing the long-term financial plan, borrowings were identified as an important funding source for capital works expenditure. Council has a borrowing strategy (Warrnambool City Council Borrowing Strategy 2017) that allows for borrowings towards financing large inter-generational infrastructure projects or for investments that will provide a financial return.

Council has analysed its debt position against other Regional City councils over a number of different indicators including the 'obligations' indicators that are part of the prescribed Local Government Performance Reporting Framework (LGPRF). The outcome of the analysis highlighted that the current debt levels could be accommodated.

The proposed borrowings are to be used for;

- Council's share of the contribution to the Reid Oval upgrade (\$3 million)
- Investment in Smart Street Lighting (\$1.4 million) which has a positive cashflow from year 1 and a payback within 6 years
- Council's contribution to a road upgrade being triggered a Developer agreement

The following table summarises the level of forecast borrowings for the next ten years.

Year	New Borrowings \$'000	Principal \$'000	Interest \$'000	Balance 30 June \$'000
2020	4,400	1,746	409	13,191
2021	0	1,959	409	11,232
2022	1,000	1,754	332	10,478
2023	0	1,549	331	8,929
2024	0	1,737	252	7,192
2025	0	1,488	200	5,704
2026	0	1,303	154	4,401
2027	0	1,226	111	3,175
2028	0	1,222	68	1,953
2029	0	1,213	26	740

Council is working towards a longer term strategy based on the outcomes of Warrnambool 2040 and it's Council Plan which will identify the future inter-generational projects that will need to be loan funded.

Capital works

The assumptions affecting asset renewal, expansion, upgrade and new assets are set out below.

Asset renewal

Council has developed a 15 year renewal plan based upon Council's Asset Management Plans. The Plans, alongside asset data and analysis provide the basis for Council's management strategy, renewal program formulation and prediction of asset deterioration. When Council renews its assets in line with the aforementioned material, the desired service levels are maintained. If Council does not fund the renewal demand, Council's service levels are amended proportional to that difference in funding. The table below illustrates the renewal demand and actual renewal funding.

Asset Class	Renewal Requirement (RR)	Funded Renewal (FR)	% of RR Funded	Renewal Gap (RG)
Roads	\$9,144,001	\$2,562,719	28%	\$6,581,282
Bridges	\$3,333,797	\$166,577	5%	\$3,167,220
Pathways	\$1,306,956	\$291,339	22%	\$1,015,617
Buildings	\$5,582,000	\$1,193,000	21%	\$4,389,000
Drainage	\$1,021,000	\$73,664	7%	\$947,336
Open Space	\$1,065,000	\$135,000	13%	\$930,000
Plant & Fleet	\$1,059,000	\$1,059,000	100%	\$ -
TOTAL	\$22,511,754	\$5,481,299	24%	\$17,030,455

Whilst Council aims at maintaining service levels at prior year levels (where practicable), the above table clearly demonstrates that the renewal demand is not being met with adequate funding, which will produce an increasing renewal gap. Council is, however, committed to increasing the level of asset renewal funding over the coming 10 years and is planning to apply to the Essential Services Commission for a rate cap variation to help address the renewal gap.

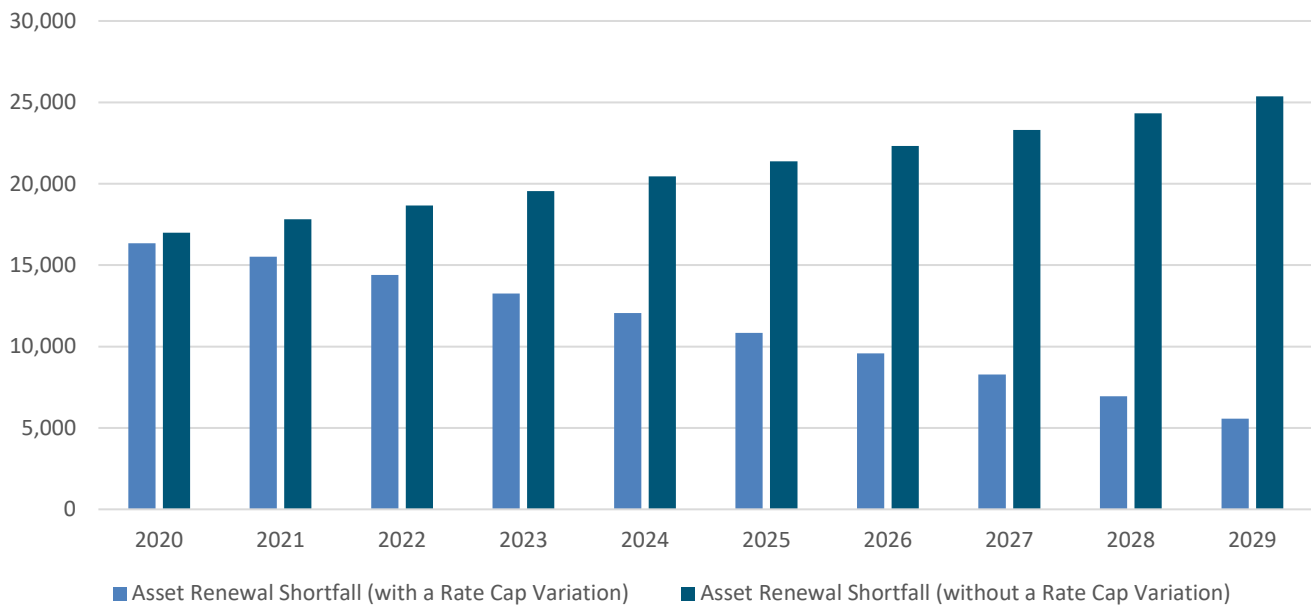
The following table shows the impact of the additional income from the rate cap variation going towards asset renewal.

By 2029, the asset renewal gap is expected to be \$5.57 million with the rate cap variation or \$25.37 million without the rate cap variation.

The reality is also that the reduction of this renewal gap also requires consideration of the upgrade and improvement requirements of our community's assets.

Asset Renewal Funding	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual Renewal Requirement	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379	7,601	7,829
Renewal Backlog	16,500	16,350	15,525	14,405	13,252	12,065	10,841	9,581	8,283	6,946
Total Renewal Requirement	22,500	22,530	21,890	20,962	20,005	19,020	18,006	16,960	15,884	14,775
Current Annual Funding	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176
Rap Cap Variation Allocated to Renewal	650	1,340	1,650	1,700	1,750	1,803	1,857	1,913	1,970	2,029
Total Funding Available	6,150	7,005	7,485	7,709	7,941	8,179	8,424	8,677	8,937	9,206
Asset Renewal Shortfall	16,350	15,525	14,405	13,252	12,065	10,841	9,581	8,283	6,946	5,570

Asset Renewal Shortfall

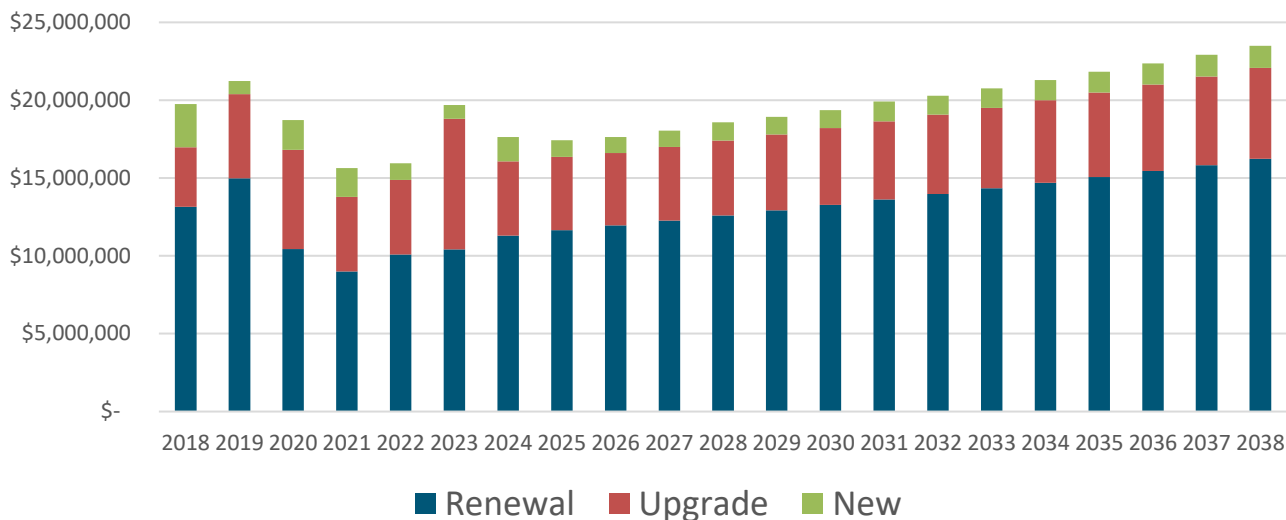


Predicting the deterioration and planning for the renewal of Council's assets is limited by the availability and accuracy of asset condition data. Presently Council has very limited condition data on the drainage network but has a program in place for regular updates of condition information for all other major asset classes.

Capital expenditure program

Councils focus into the future is on asset renewal and asset upgrade which generally occur as part of the same project. The asset upgrade component is dependent on a number of factors such as community expectations for the facility/service, regulations and service demand. Below is a chart which highlights Councils ongoing efforts into asset renewal and asset upgrade.

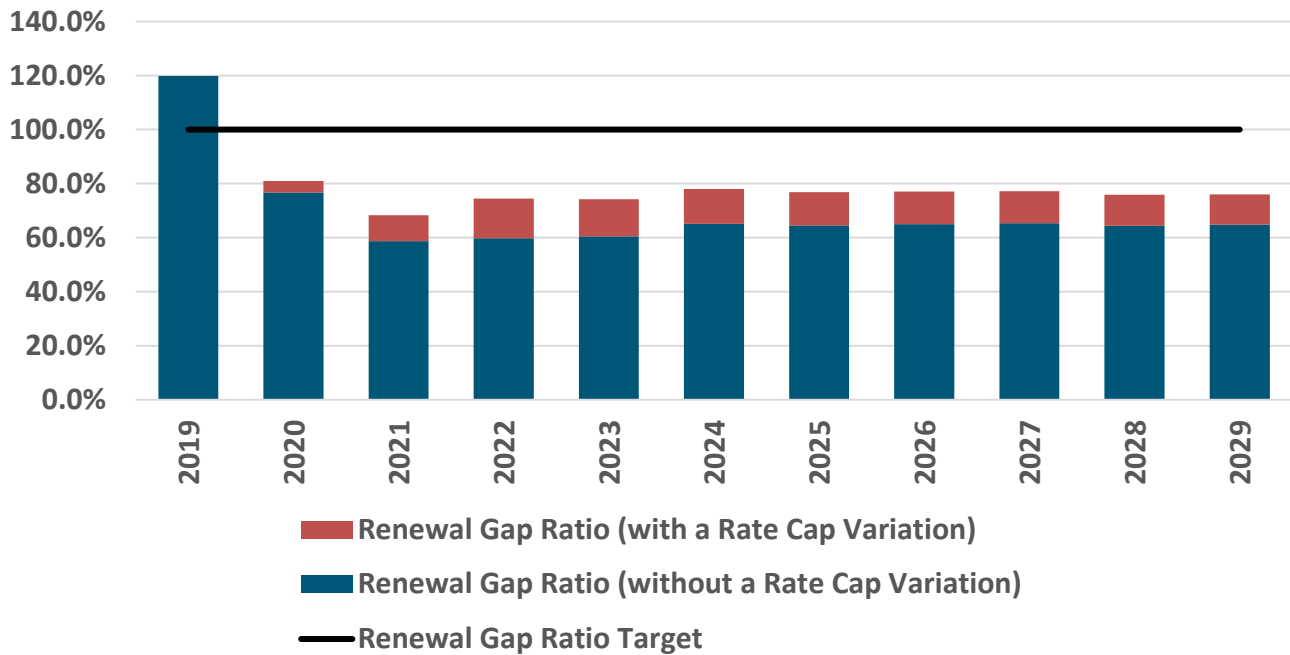
Capital Expenditure



Even with the focus on asset renewal, Council is still not meeting the asset renewal funding ratio's, however the additional funding is allowing to achieve asset renewal ratios of mid to high 70's which is higher than the Regional Cities average as reported through the 'Know Your Council' website.

Council has an extensive array of strategic plans which provide evidence of the strategic needs for the improvement and upgrade of the community's assets.

Asset Renewal Funding Ratio



Human resources

Employee costs

The current collective wage agreement applies to wage rate changes for the period of 1 July 2016 to 30 June 2019. The agreement is an increase of 2.3 per cent or \$30 per week and with banding increments this equates to overall increase of 3.0 per cent per annum. Council is currently negotiating a new agreement, with the long-term financial plan assuming an increase of 1.5 per cent per annum over the next three years, well within the expected CPI range.

Not being able to achieve this outcome through the current enterprise agreement negotiations is a risk to Council and any changes to the outcome forecast would need to be managed within existing resources.

Employee numbers

Staff numbers are forecast to remain constant over the life of the long-term financial plan at 397 FTE. Council is aiming to achieve this through the introduction of shared corporate services with neighbouring municipalities and cost efficiency program.

Option analysis

In order to achieve the overall objective of the long-term financial plan, it was necessary to model a number of different options by changing the assumptions underlying the long-term financial plan. In undertaking the analysis, council considered a number of options and modelled these over periods of 4 years, 10 years and 15 years. The 3 most realistic options are as follows:

Higher cap option (i.e. a rate increase above the rate cap)

- Apply for a multi-year (3 years) application for a rate cap variation at 4.5% per annum
- Continue to provide the current services to the community (with ongoing service reviews)
- Utilise the additional income towards reducing the asset renewal gap in years one and two
- Fund the additional costs of the new Library/Learning Centre (\$500k per annum) from year three
- The balance of additional funds in year three to be utilised for asset renewal
- Maintain the additional income in asset renewal from year four and beyond

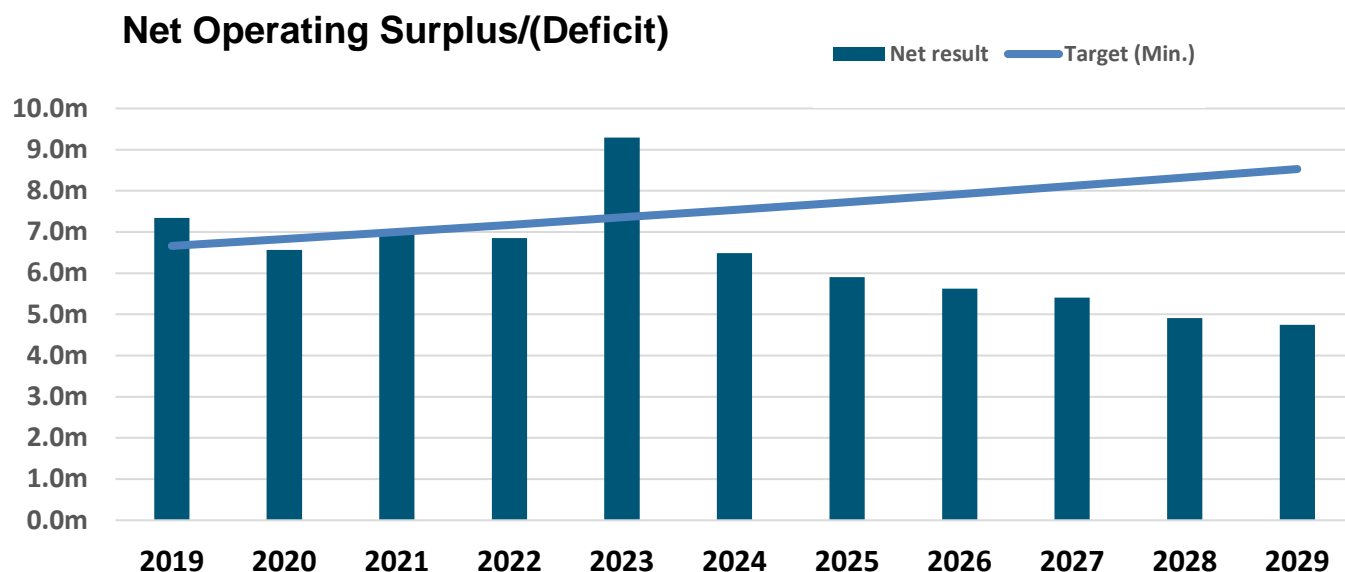
No increase to rate cap (i.e. base case)

- Review the current services offered to the community and Councils regional role
- Fund the additional costs of the new Library/Learning Centre (\$500k per annum) from a permanent reduction in capital

Higher cap option

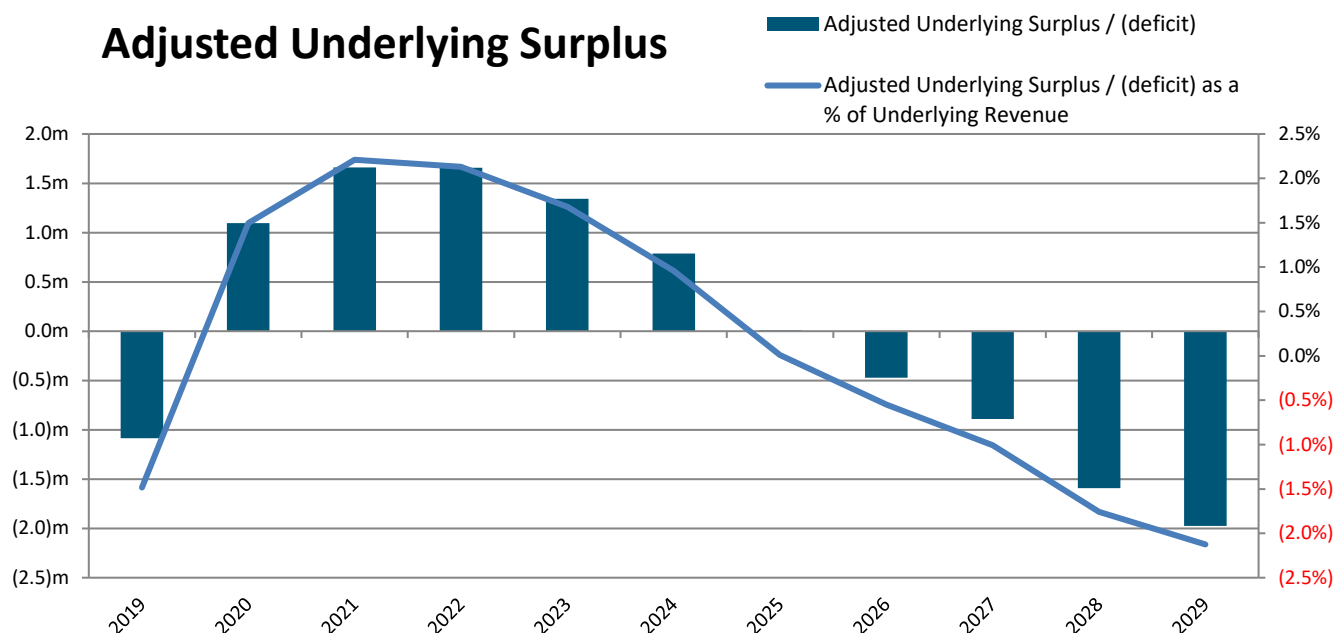
Net Operating Surplus

Council either achieves the target or is close to the target in the mid-term (5 years), before further action would need to be taken in 2024 to continue meeting this objective.



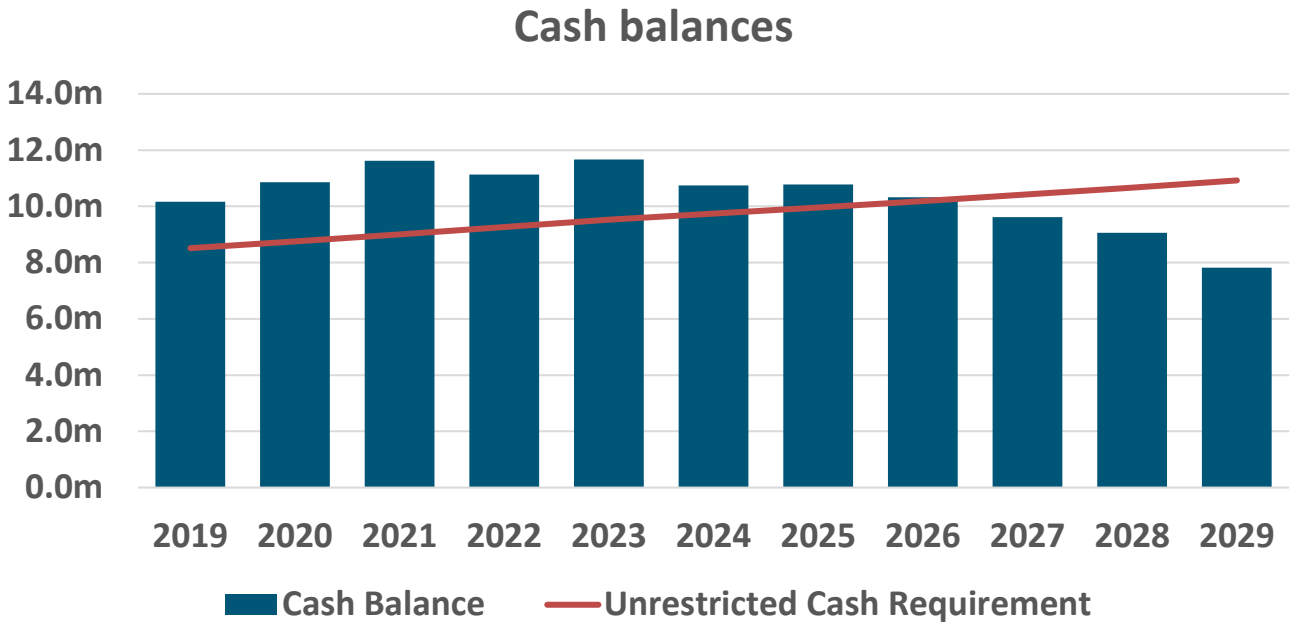
Adjusted Underlying Surplus

Council is meeting the target of a breakeven underlying surplus until 2026.



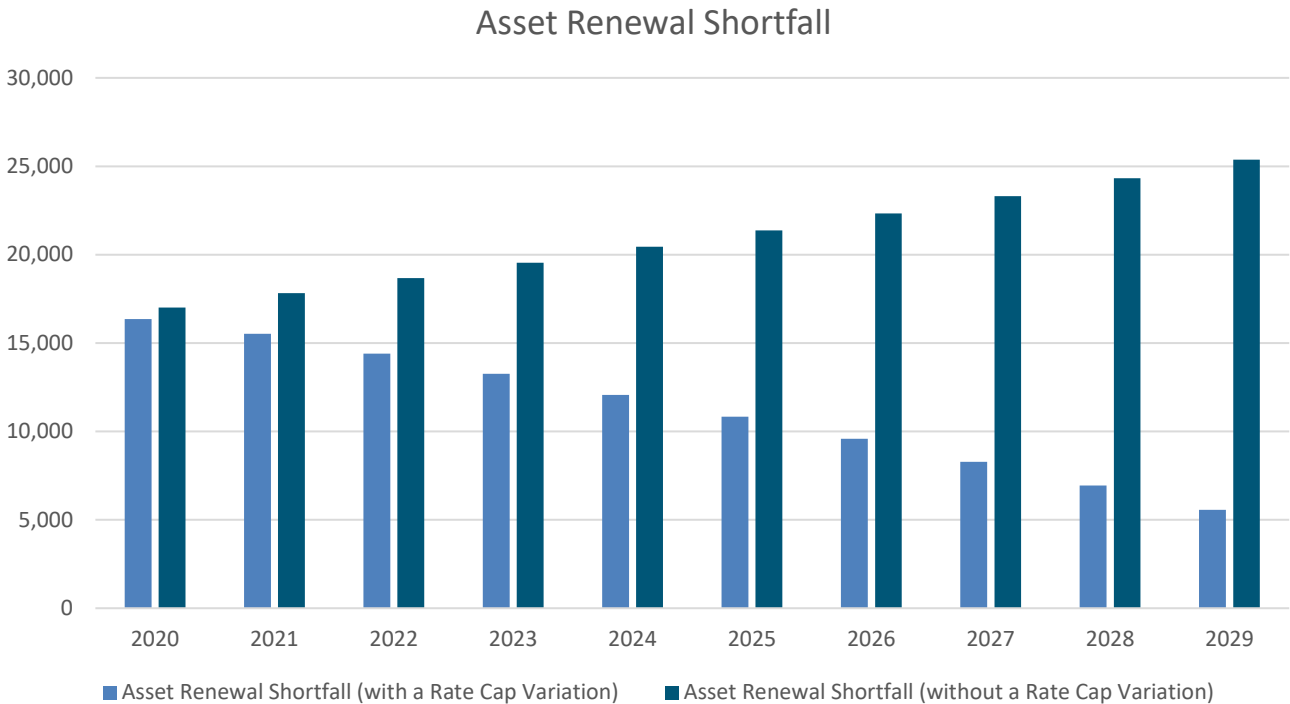
Cash Balances

Council is able to sustain cash balances above the restricted cash requirement until 2026.

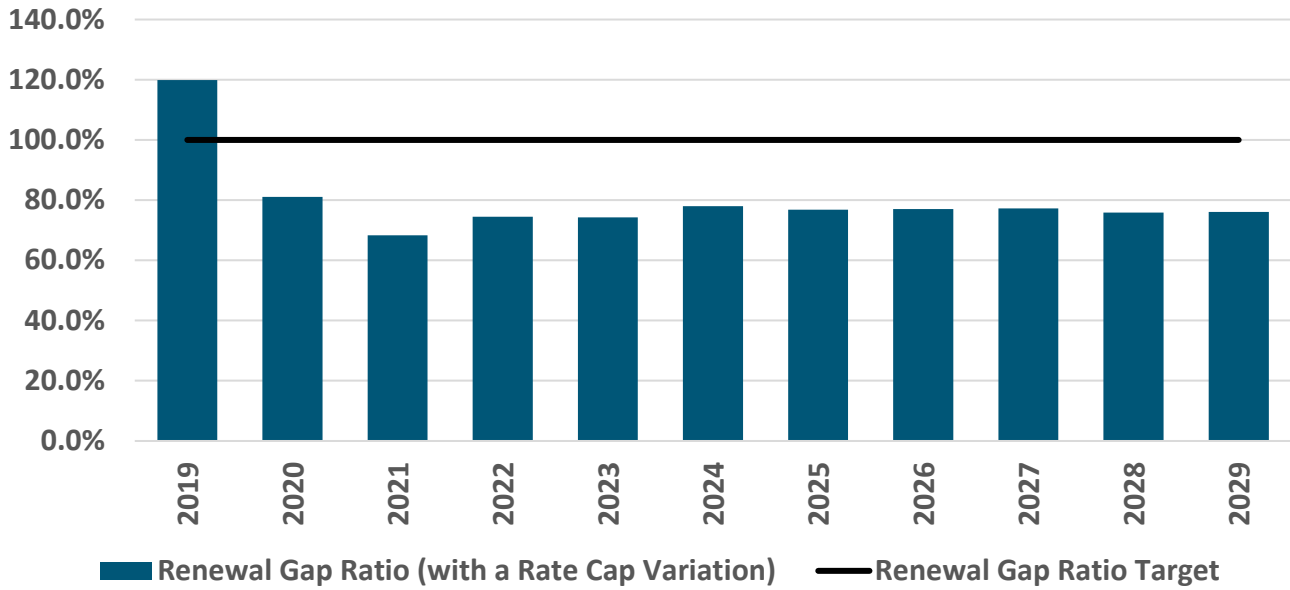


Asset Renewal

Council is able to reduce the asset renewal shortfall significantly with this option.



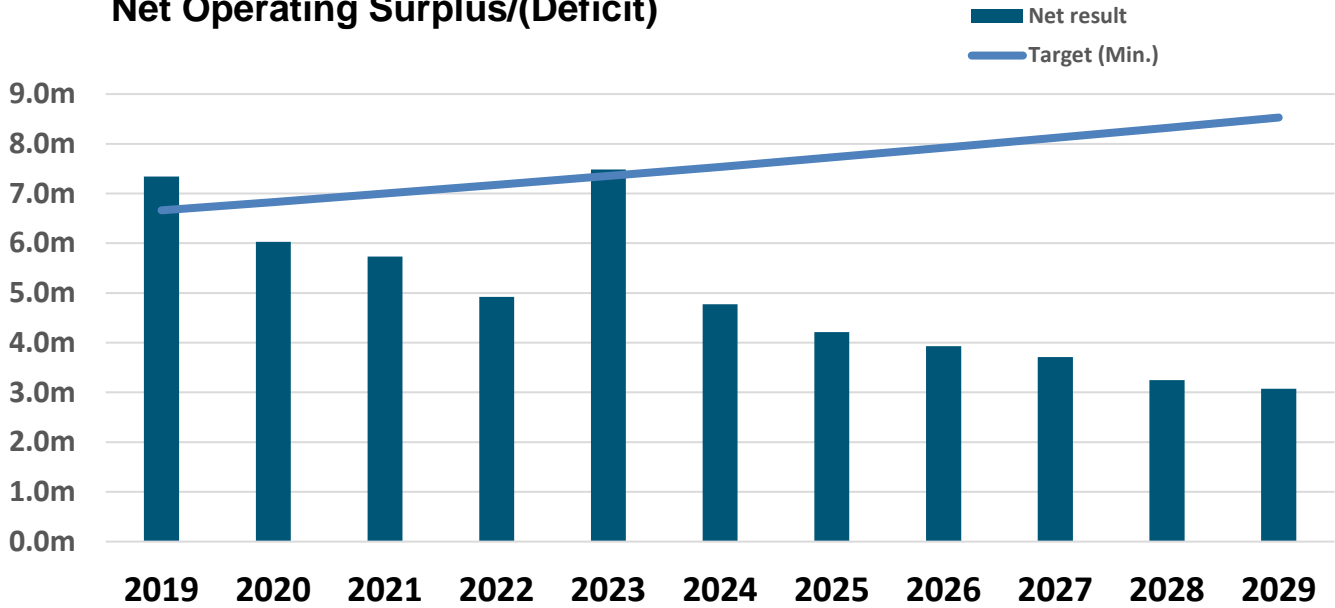
Asset Renewal Funding Ratio



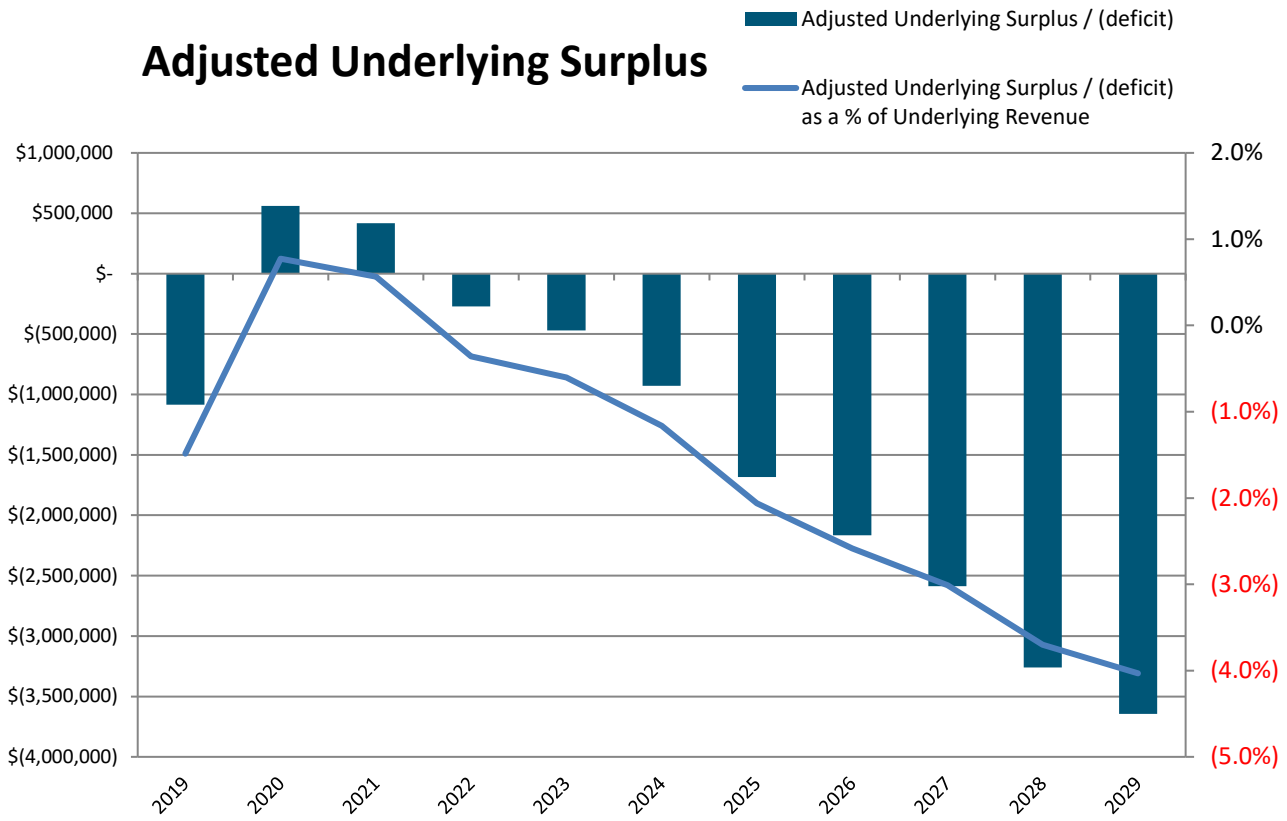
Under the higher cap option, the Council is able to achieve a satisfactory underlying result into the mid to long-term and is also significantly addressing the asset renewal backlog and shortfall funding.

No increase to rate cap

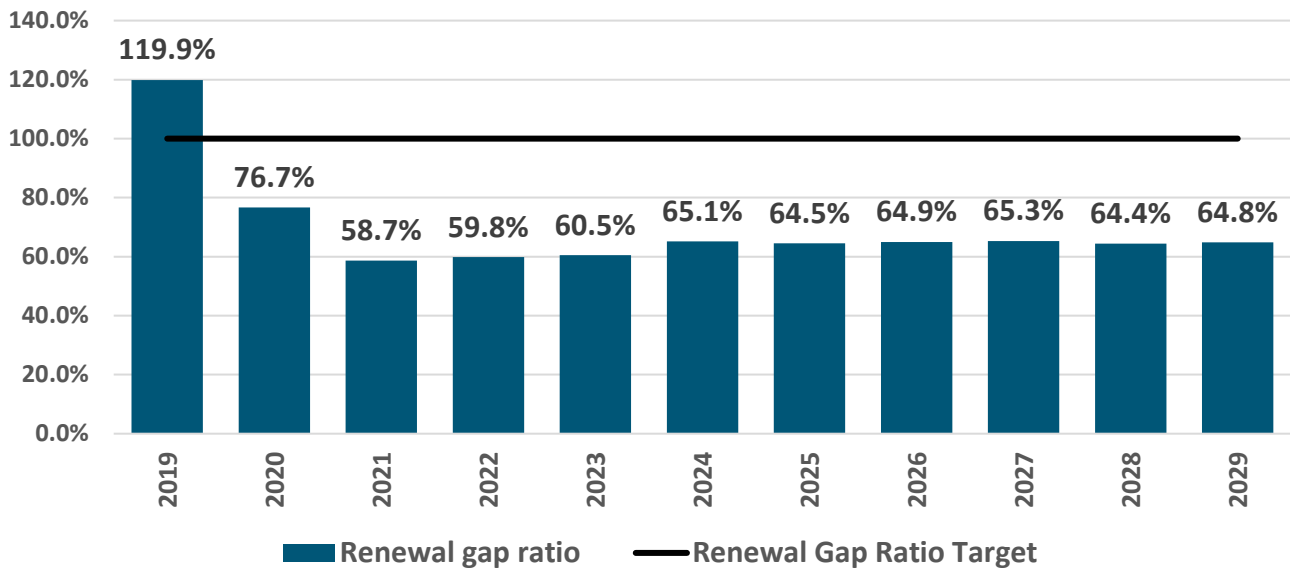
Net Operating Surplus/(Deficit)



Adjusted Underlying Surplus



Asset Renewal Funding Ratio



Outcomes

The addition of an improved rate revenue stream allows Council to;

1. Move to resolve its asset renewal backlog and improves its renewal capacity
2. Reduces problem areas that Council needs to focus on for financial sustainability
3. Allows time for Council to resolve additional sustainability issues
4. Allows for a permanent uplift that achieves financial sustainability in the short to mid-term

Achievement of Long-Term Financial Plan objectives

The overall objective of the long-term financial plan is financial sustainability in the medium to long term, while still providing sufficient resources to achieve the council plan strategic objectives. The financial outcomes of the long-term financial plan are set out below under each of the key objectives which underpin the long-term financial plan over the next ten years.

1. Achieve at a minimum a breakeven adjusted underlying result (objective: achieved)

The adjusted underlying result is a small surplus in each of the first six years of the plan (measure: adjusted underlying result).

2. Maintain existing services and service levels (objective: achieved)

Existing services have been maintained throughout the long-term financial plan period after allowing for the impact of inflation and other cost indexation (measure: net cost of services and expenditure level).

3. Achieve a balanced budget on a cash basis (objective: achieved)

Council is forecasting that the overall cash balance will be greater than the restricted cash requirement in the plan until year seven (measure: unrestricted cash).

4. Meet council's asset renewal requirements (objective: achieved)

The renewal gap reduces significantly over the long-term financial plan period. (measure: renewal gap).

5. Maintain debt at a moderate level to allow capacity to fund future infrastructure (objective: achieved)

Borrowings are planned for either inter-generational projects or investments that will provide a financial return. Council will continue to review this as a source of funding to achieve objectives from the Council Plan and Warrnambool 2040. (Measure: loans and borrowings).

Comprehensive Income Statement	Budget	Strategic Resource Plan Projections			Long-Term Financial Plan					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income										
Rates and charges	40,511	42,478	44,540	45,948	47,398	48,893	50,434	52,023	53,660	55,347
Statutory fees and fines	1,846	1,874	1,902	1,931	1,969	2,009	2,049	2,090	2,132	2,174
User fees	15,047	15,335	15,628	16,182	16,450	16,724	17,002	17,386	17,676	17,972
Grants - operating	14,190	14,376	14,535	14,728	14,988	15,254	15,525	15,801	16,083	16,371
Grants - capital	2,432	5,123	3,847	4,950	3,538	3,635	3,735	3,837	3,942	4,051
Contributions - monetary	880	404	410	416	426	437	448	459	471	482
Contributions - non monetary assets	4,000	4,000	4,000	4,000	4,100	4,203	4,308	4,415	4,526	4,639
Interest	328	340	350	361	292	269	269	258	240	226
Other revenues	346	351	356	362	367	371	376	380	385	390
Total income	79,581	84,282	85,568	88,878	89,529	91,794	94,146	96,650	99,115	101,653
Expenses										
Employee costs	34,259	35,280	36,503	37,944	39,245	40,589	41,978	43,414	44,716	46,058
Materials and services	23,657	26,264	26,439	25,268	27,013	27,877	28,767	29,686	30,634	31,611
Bad and doubtful debts	124	127	130	133	133	133	133	133	133	133
Depreciation	12,871	13,163	13,535	14,011	14,478	15,145	15,515	15,894	16,614	17,011
Finance costs	409	409	332	331	252	200	154	111	68	26
Other expenses	834	855	876	898	925	953	981	1,011	1,041	1,072
Net loss on disposal of property, infrastructure, plant and equipment	866	1,209	903	996	996	996	996	996	996	996
Total expenses	73,020	77,307	78,718	79,581	83,042	85,892	88,525	91,245	94,202	96,907
Surplus (deficit) for the year	6,561	6,975	6,851	9,297	6,488	5,902	5,621	5,405	4,913	4,746
Other comprehensive income										
Net asset revaluation increment/(decrement)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Comprehensive result	16,561	16,975	16,851	19,297	16,488	15,902	15,621	15,405	14,913	14,746

Balance Sheet	Budget	Strategic Resource Plan Projections			Long-Term Financial Plan					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets										
Current assets										
Cash assets	2,862	3,624	3,131	3,670	1,994	2,719	2,236	1,873	1,849	1,020
Trade and other receivables	3,516	3,529	3,542	3,556	3,645	3,736	3,829	3,925	4,023	4,124
Financial assets	8,000	8,000	8,000	8,000	8,752	8,060	8,084	7,740	7,210	6,794
Inventories	190.45	190	190	190	194.75	199.6188	204.6092	209.7244	214.9676	220.3417
Other current assets	960	970	980	990	1014.75	1040.119	1066.122	1092.775	1120.094	1148.096
Total current assets	15,529	16,313	15,843	16,406	15,601	15,755	15,420	14,841	14,417	13,306
Non-current assets										
Trade and other receivables	30	20	11	0	0	0	0	0	0	0
Investments in associates	595	610	626	641	641	641	641	641	641	641
Property, infrastructure, plant & equipment	696,291	710,873	727,797	745,781	751,677	771,828	776,846	781,982	802,642	807,690
Total non-current assets	696,916	711,503	728,433	746,421	752,318	772,468	777,486	782,623	803,282	808,330
Total Assets	712,445	727,816	744,276	762,827	767,919	788,223	792,907	797,463	817,699	821,637
Liabilities										
Current liabilities										
Trade and other payables	3,800	3,900	4,000	4,100	4,223	4,350	4,480	4,615	4,753	4,896
Trust funds	700	720	740	700	718	735	754	773	792	812
Provisions	7,004	7,214	7,431	7,653	7,883	8,119	8,363	8,614	8,872	9,138
Interest-bearing liabilities	1,959	1,754	1,549	1,604	1,488	1,303	1,226	1,222	1,213	540
Total current liabilities	13,463	13,588	13,720	14,057	14,311	14,507	14,823	15,223	15,630	15,385
Non-current liabilities										
Provisions	1,339	1,379	1,421	1,463	1,434	1,406	1,379	1,353	1,328	1,305
Interest-bearing liabilities	11,232	9,478	8,929	7,325	5,704	4,401	3,175	1,953	740	200
Total non-current liabilities	12,571	10,857	10,350	8,788	7,138	5,807	4,554	3,306	2,068	1,505
Total liabilities	26,034	24,445	24,070	22,845	21,449	20,314	19,377	18,529	17,698	16,890
Net Assets	686,411	703,371	720,206	739,982	746,470	767,909	773,530	778,934	800,001	804,747
Represented by:										
Accumulated surplus	232,429	239,261	246,038	255,694	261,799	267,409	272,724	277,807	282,384	286,776
Reserves	453,982	464,110	474,168	484,288	484,671	500,500	500,806	501,127	517,617	517,971
Total equity	686,411	703,371	720,206	739,982	746,470	767,909	773,530	778,934	800,001	804,747

Cash Flow Statement	Budget	Strategic Resource Plan Projections			Long-Term Financial Plan					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities										
Rates and charges	39,457	40,713	42,004	43,336	47,309	48,802	50,341	51,927	53,562	55,246
Statutory fees and fines	1,846	1,874	1,902	1,931	1,969	2,009	2,049	2,090	2,132	2,174
User fees	16,552	16,868	17,191	17,800	16,317	16,591	16,869	17,253	17,543	17,839
Grants	16,622	19,500	18,382	19,678	18,527	18,889	19,259	19,638	20,026	20,422
Contributions	968	444	451	458	426	437	448	459	471	482
Interest	328	339	351	362	292	269	269	258	240	226
Trust funds and deposits taken	0	20	20	0	0	0	0	0	0	0
Other revenue	365	386	392	399	367	371	376	380	385	390
Net GST refund / payment	(935)	(534)	(765)	(600)	0	0	0	0	0	0
Employee costs	(34,016)	(35,030)	(36,245)	(37,679)	(38,984)	(40,320)	(41,701)	(43,129)	(44,423)	(45,755)
Materials, consumables & contracts	(23,557)	(26,164)	(26,339)	(25,168)	(27,904)	(28,793)	(29,709)	(30,654)	(31,629)	(32,634)
Finance costs	(409)	(409)	(332)	(331)	(252)	(200)	(154)	(111)	(68)	(26)
Trust funds and deposits repaid	(20)	0	0	(40)	0	0	0	0	0	0
Other expenses	(917)	(940)	(964)	(988)	0	0	0	0	0	0
Net cash provided by operating activities	16,285	17,067	16,048	19,157	18,067	18,055	18,047	18,111	18,238	18,365
Cash flows from investing activities										
Proceeds from sales of property, plant & equipment	498	255	261	268	355	381	410	440	472	506
Payments for property, plant and equipment	(18,739)	(14,601)	(16,048)	(17,337)	(17,625)	(16,934)	(17,631)	(18,051)	(18,062)	(18,922)
Net Investment Activity	0	0	0	0	(735)	710	(6)	363	550	435
Net cash used in investing activities	(18,241)	(14,346)	(15,787)	(17,069)	(18,005)	(15,842)	(17,227)	(17,248)	(17,040)	(17,981)
Cash flows from financing activities										
Proceeds from borrowings	4,400	0	1,000	0	0	0	0	0	0	0
Repayment of borrowings	(1,746)	(1,959)	(1,754)	(1,549)	(1,737)	(1,488)	(1,303)	(1,226)	(1,222)	(1,213)
Net cash provided by (used in) financing activities	2,654	(1,959)	(754)	(1,549)	(1,737)	(1,488)	(1,303)	(1,226)	(1,222)	(1,213)
Net increase/(decrease) in cash held	698	762	(493)	539	(1,676)	725	(483)	(363)	(24)	(829)
Cash at the beginning of the financial year	2,165	2,862	3,624	3,131	3,670	1,994	2,719	2,236	1,873	1,849
Cash at the end of the financial year	2,862	3,624	3,131	3,670	1,994	2,719	2,236	1,873	1,849	1,020

Capital Works Statement	Budget	Strategic Resource Plan Projections			Long-Term Financial Plan					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property										
Land non-specialised	0	230	100	0	0	0	0	0	0	0
Total land	0	230	100	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	0	0	0	0
Building improvements	2,783	3,361	2,798	2,862	4,350	4,449	4,540	4,633	4,727	4,824
Total buildings	2,783	3,361	2,798	2,862	4,350	4,449	4,540	4,633	4,727	4,824
Total property	2,783	3,591	2,898	2,862	4,350	4,449	4,540	4,633	4,727	4,824
Plant and equipment										
Plant, machinery and equipment	1,253	1,290	1,327	1,365	1,407	1,450	1,494	1,539	1,585	1,633
Computers and telecommunications	304	310	317	324	332	340	348	357	366	375
Paintings and exhibits	55	55	55	55	56	57	58	59	60	61
Total plant and equipment	1,613	1,655	1,699	1,744	1,794	1,846	1,900	1,954	2,011	2,068
Infrastructure										
Roads	3,816	3,384	3,563	3,643	5,683	5,814	5,888	6,024	6,163	6,304
Bridges	372	396	509	522	535	548	562	576	591	605
Footpaths and cycleways	1,239	1,409	1,804	1,899	2,665	2,735	2,650	2,725	2,898	2,884
Drainage	544	216	325	333	941	349	358	367	376	386
Recreational, leisure and community facilities	3,880	4,258	4,387	7,394	808	822	836	851	866	881
Parks, open space and streetscapes	3,780	602	714	1,245	791	813	835	857	880	903
Off street car parks	50	30	0	0	0	0	0	0	0	0
Other infrastructure	645	105	57	57	59	60	62	63	65	67
Total infrastructure	14,325	10,400	11,360	15,095	11,482	11,142	11,192	11,464	11,838	12,029
Total capital works expenditure	18,721	15,647	15,957	19,700	17,625	17,437	17,631	18,051	18,576	18,922
Represented by :										
New asset expenditure	1,905	1,856	1,078	898	1,555	1,076	1,018	1,048	1,176	1,117
Asset renewal expenditure	10,430	8,995	10,084	10,408	11,297	11,643	11,955	12,275	12,601	12,935
Asset expansion expenditure	0	0	0	0	0	0	0	0	0	0
Asset upgrade expenditure	6,385	4,795	4,794	8,394	4,774	4,718	4,658	4,729	4,799	4,871
Total capital works	18,721	15,647	15,957	19,700	17,625	17,437	17,631	18,051	18,576	18,922
Funding sources represented by:										
Grants	3,392	5,393	4,117	5,220	3,127	3,134	3,142	3,149	3,157	3,164
Contributions	0	0	0	0	0	0	0	0	0	0
Council Cash	10,929	10,253	10,840	14,480	14,498	14,302	14,489	14,902	15,419	15,758
Borrowings	4,400	0	1,000	0	0	0	0	0	0	0
Total capital works	18,721	15,647	15,957	19,700	17,625	17,437	17,631	18,051	18,576	18,922

Glossary

Act	means the <i>Local Government Act 1989</i>
Annual report	means a report of the council's operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement
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 expenditure type	means the following types of asset expenditure: (a) asset renewal expenditure; (b) new asset expenditure; (c) asset upgrade expenditure; (d) asset expansion expenditure
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
Australian Accounting Standards (AASB)	means the accounting standards published by the Australian Accounting Standards Board
Average rate cap	means an amount expressed as a percentage amount, based on the change to CPI over the financial year to which the cap relates, plus or minus any adjustment
Budget	means a plan setting out the services and initiatives to be funded for the financial year and how they will contribute to achieving the strategic objectives specified in the council plan
Capital works expenditure	means expenditure on non-current assets and includes new assets, asset renewal, asset expansion and asset upgrade
Council plan	means a plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting vision and aspirations of the community for the next four year
Financial resources	means income, expenditure, assets, liabilities, equity, cash and capital works required to deliver the services and initiatives in the budget
Financial statements	means the financial statements and notes prepared in accordance with the Local Government Model Financial Report, Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and a statement of capital

	works and included in the annual report
Financial year	means the period of 12 months ending on 30 June each year
General order	means an order made by the Minister under section 185D of the Act
Higher cap	means an amount expressed as the average rate cap specified in a general order plus an additional percentage amount in respect of that financial year
Human resources	means the staff employed by a council
Indicator	means what will be measured to assess performance
Initiatives	means actions that are one-off in nature and/or lead to improvements in service
Local Government Model Financial Report	means the model report published by the Department of Environment, Land, Water and Planning
Major initiatives	means significant initiatives that will directly contribute to the achievement of the council plan during the current year and have a major focus in the budget
Minister	means the Minister for Local Government
Model budget	means the <i>Victorian City Council Model Budget</i> prepared annually by the Chartered Accountants in Australia and New Zealand
New asset expenditure	means expenditure that creates a new asset that provides a service that does not currently exist
Non-financial resources	means the resources other than financial resources required to deliver the services and initiatives in the budget
Non-recurrent grant	means a grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a council's strategic resource plan
Planning and accountability framework	means the key statutory planning and reporting documents that are required to be prepared by councils to ensure accountability to local communities in the performance of functions and exercise of powers under the Act
Performance statement	means a statement including the results of the prescribed service outcome indicators, financial performance indicators and sustainable capacity indicators for the financial year and included in the annual report
Recurrent grant	means a grant other than a non-recurrent grant
Regulations	means the Local Government (Planning and Reporting) Regulations 2014
Report of operations	means a report containing a description of the operations of the

	council during the financial year and included in the annual report
Services	means assistance, support, advice and other actions undertaken by a council for the benefit of the local community
Special order	means an order made by the ESC under section 185E of the Act
Statement of capital works	means a statement which shows all capital expenditure of a council in relation to non-current assets and asset expenditure type prepared accordance to the model statement of capital works in the Local Government Financial Report
Strategic objectives	means the outcomes a council is seeking to achieve over the next four years and included in the council plan
Strategic resource plan	means a plan of the financial and non-financial resources for at least the next four years required to achieve the strategic objectives in the council plan. Is also referred to as a long term financial plan
Strategies	means high level actions directed at achieving the strategic objectives in the council plan
Statement of human resources	means a statement which shows all council staff expenditure and numbers of full time equivalent council staff
Statements of non-financial resources	means a statement which describes the non-financial resources including human resources
Summary of planned capital works expenditure	means a summary of capital works expenditure in relation to non-current assets classified according to the model statement of capital works in the <i>Local Government Model Financial Report</i> , by asset expenditure type and funding source
Summary of planned human resources expenditure	means a summary of permanent council staff expenditure and numbers of full time equivalent council staff categorised according to the organisational structure of the council

Long term financial planning

Warrnambool City Council

January 2019

Warrnambool CC_LTFP 3.2 (final)

Confidential

Prepared for: Warrnambool City Council

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1 Executive Summary

1.1 Introduction

In accordance with Council's annual audit plan, internal audit reviewed the adequacy of the process of Council's planning of its long term financial sustainability.

1.2 Audit objectives

The objectives were to review the adequacy of the processes with respect to:

1. The linkage between the financial projections contained in Council's Long Term Financial Plan (LTFP) and Council's future directions, and the LTFP numbers are reflected in the annual budget.
2. The process for ensuring current operating trends, including rates of growth for key revenue and expenditure items, are sustainable.
3. Council operations generate sufficient cash flow to fund capital and borrowing commitments over the life of the LTFP.
4. Council is implementing appropriate measures to ensure compliance with the Local Government Act.
5. Strategies for the renewal and maintenance of fixed assets are appropriate and supportable, and if not, what are the options for handling this issue
6. Adequate processes exist to engage and inform key 'business leaders' within Council of contents and assumptions within the LTFP.
7. Adequate processes exist to ensure that LTFP adequately identifies and distinguishes between funded Council approved plans and strategies and those of a more aspirational or opportune nature.

1.3 Audit Conclusion

Overall, we found that the current controls in place over Council's long term financial sustainability maintained by Council are need strengthening. The review identified a range of controls that should be implemented/improved in order to reduce the identified weaknesses and exposures.

Council has acquired a commercial long term financial planning model (spreadsheet based) and commenced its operation. Senior management appear to be familiar with and were engaged in its development as part of the annual budget process. The long term financial plan incorporates key financial performance and sustainability indicators as used by the Victorian Auditor-General's Office and in the Local Government Performance Reporting Framework.

Our report does not identify any High risk issues.

The following table is a summary of issues arising during the review. For further details of each issue, including management responses, refer to section 3.

Finding No.	Rpt. section	Report section/title	Risk Rating*		
			High	Moderate	Low
1	3.1	Policies and guidance need to be developed		X	
2	3.2	Need to develop a clear understanding of Council's roles and service expectations		X	
3	3.3	Improved accounting for capital works spending		X	
4	3.4	Response to adverse medium to long term outcomes in the LTFP		X	
5	3.5	Embedding the LTFP in decision making		X	
6	3.6	Developing the use of the LTFP			X
7	3.7	Need for periodic review of LTFP			X
8	3.8	Improving the efficiency and effectiveness of long term financial planning			X
9	3.9	Improvements to the LTFP model			X
Total			0	5	4

* - Refer Appendix 3 - Key to significance of risk rating

The following points summarise each objective reviewed:

1 There is a linkage between the financial projections contained in Council's Long Term Financial Plan (LTFP) and Council's future directions, and the LTFP numbers are reflected in the annual budget

The controls around linking Council's future directions and long term financial projections need to be strengthened.

We noted that the following process controls have been established:

- A range of strategies, plans and policies have been adopted that set out Council's goals and aspirations for the short to medium term;
- A Council Plan exists, in accordance with statutory requirements, which sets out Council's operating, capital, strategies and priorities for the four years to 30 June 2021;
- The Council Plan incorporates, in accordance with statutory requirements, a Strategic Resource Plan and Budget which demonstrates Council's ability to support the intent of the Council Plan across the four years covered by the Council Plan;
- A Borrowing Strategy is in place to guide the use and management of debt;
- Strategies, policies, plans and budgets are subject to formal review to ensure their consistency with Council's objectives before approval and implementation;
- Assumptions underlying the long term financial projections are generally clearly defined, documented and disclosed in the long term financial plan.

Controls and processes that require strengthening include:

- Need to develop policies and/or guidelines to support preparing the Long Term Financial Plan (LTFP). (Refer to 3.1)
- Other Council strategies and plans should be prepared and updated taking account of the implications of stated commitments and actions on the LTFP. (Refer to 3.1)

2 The process for ensuring current operating trends, including rates of growth for key revenue and expenditure items, are sustainable

The controls and processes around whether current financial operating trends are sustainable need to be strengthened.

We noted that the following process controls have been established:

- The Strategic Resource Plan and budget demonstrate that Council is able to support current services and service levels and capital expenditure priorities for the medium term;
- The budget is subject to quarterly review against actual results to ensure accountability and consistency in financial outcomes and includes explanations and corrective actions for material variances from budget;
- Revenue and cost drivers have been identified and documented and are subject to annual review as part of the budget process; and
- The long term financial plan incorporates financial performance indicators, some of which incorporate risk ratings.

Controls and processes that require strengthening include:

- Council should establish parameters for acceptable ranges of outcomes for financial indicators. (Refer to 3.1)
- Councils service levels are not aligned to long term objectives. (Refer to 3.2)

3 Council operations generate sufficient cash flow to fund capital and borrowing commitments over the life of the LTFP

The controls and processes around operations generating sufficient cash flow to fund capital and borrowing commitments over the life of the LTFP need to be strengthened.

We noted that the following process controls have been established:

- Proposals for capital expenditure are subject to bid process which includes a documented framework for the assessment and prioritisation of capital works;
- Council reviews its capital needs on an ongoing basis and has developed a fifteen- year capital works plan to assist in supporting the long term financial plan;
- A Borrowing Strategy exists to guide Council on the use and management of debt;
- The long term financial plan details Council's plans for new debt and repayment of all debt well within the term of the long term financial plan;
- Council has an established practice of preferring capital renewal over new capital expenditure.

Controls and processes that require strengthening include:

- An annual review of budget to actual capital works expenditure should be completed to specifically understand the implications for the LTFP. (Refer to 3.3)
- Determination and use of whole of life costs should be improved to ensure better incorporation where required into the LTFP. (Refer to 3.3)
- Applying capital funds to take advantage of grants on an opportunistic basis the effect of this decision should be modelled in the LTFP. (Refer to 3.3)
- The asset management planning horizon (of fifteen years) and LTFP forecast period (of twenty years) should be aligned. (Refer to 3.3)
- The LTFP should be reviewed in its entirety to ensure acceptable financial outcomes are achieved across the forecast period or adverse outcomes are rationalised. (Refer to 3.4)

4 Council is implementing appropriate measures to ensure compliance with the Local Government Act

The processes around ensuring compliance with the Local Government Act need to be strengthened.

We noted that the following process controls have been established:

- Established practices and a budget template exist to support the timely development of the annual budget;
- Established practices exist to support development of Council Plan and Strategic Resource Plan in accordance with statutory obligations;
- The long term financial plan demonstrates that debt is able to be serviced and services can be maintained into the medium term;
- A Borrowing Strategy exists to ensure debt is used only for prescribed purposes.

Controls and processes that require strengthening include:

- Need to develop policies and/or guidelines to support preparing the Long Term Financial Plan (LTFP). (Refer to 3.1)
- Other Council strategies and plans should be prepared and updated taking account of the implications of stated commitments and actions on the LTFP. (Refer to 3.1)
- The LTFP should be reviewed in its entirety to ensure acceptable financial outcomes are achieved across the forecast period or adverse outcomes are rationalised. (Refer to 3.4)
- The LTFP should be embedded in Council's and Management Executive Group's decision making processes. (Refer to 3.5)
- Alternative LTFP models should be reviewed periodically to ensure the long term financial planning process is as efficient and effective as possible. (Refer to 3.8)
- The LTFP spreadsheet model should be further developed to improve its integrity and completeness. (Refer to 3.9)

5 Strategies for the renewal and maintenance of fixed assets are appropriate and supportable, and if not, what are the options for handling this issue

The controls and processes around strategies for renewal and maintenance of fixed assets need to be strengthened.

We noted that the following process controls have been established:

- An Asset Management Strategy and Asset Management Policy exist to provide a framework for maintaining and enhancing Council's infrastructure;
- Financial performance indicators include a focus on financial support made available for asset maintenance;
- A framework exists to objectively assess new asset proposals and independently approve the capital works plan;
- Borrowings can be used to support funding capital expenditure if required.

Controls and processes that require strengthening include:

- Improving accountability for delivery of the capital works budget and understanding impacts on the LTFP. (Refer to 3.3)
- Other Council strategies and plans should be prepared and updated taking account of the implications of stated commitments and actions on the LTFP. (Refer to 3.1)
- The LTFP should be reviewed in its entirety to ensure acceptable financial outcomes are achieved across the forecast period or adverse outcomes are rationalised. (Refer to 3.4)
- The LTFP should be reviewed in its entirety to ensure acceptable financial outcomes are achieved across the forecast period or adverse outcomes are rationalised. (Refer to 3.4)

6 Adequate processes exist to engage and inform key 'business leaders' within Council of contents and assumptions within the LTFP

The controls and processes around engaging key business leaders on the long term financial plan and its assumptions need to be strengthened.

We noted that the following process controls have been established:

- Management is involved in contributing to the annual budget and by extension to the long term financial plan;
- Councillors and the Management Executive Group are informed of the contents of the long-term plan as a separate but related part of the budget development and approval process;
- The long term financial plan contains a separate and clear record of key assumptions underpinning the long term financial plan.

Controls and processes that require strengthening include:

- Need to develop policies and/or guidelines to support preparing the Long Term Financial Plan (LTFP). (Refer to 3.1)
- Other Council strategies and plans should be prepared and updated taking account of the implications of stated commitments and actions on the LTFP. (Refer to 3.1)
- Key financial indicators should be presented in long term graphical form, including three prior year actuals. (Refer to 3.6)
- The LTFP should be presented in summary report form explaining the basis of its preparation, assumptions and key outcomes. (Refer to 3.6)
- The LTFP should be periodically reviewed to understand its accuracy and build confidence in the model. (Refer to 3.7)

7 Adequate processes exist to ensure that LTFP adequately identifies and distinguishes between funded Council approved plans and strategies and those of a more aspirational or opportune nature

The processes around identifying and distinguishing between approved and funded plans and aspirations need to be strengthened.

We noted that the following process controls have been established:

- Capital works plans are based on a formal and structured framework which references Council's plans and strategies;
- Recurrent costs are based on existing services and service levels;
- The long term financial plan provides specific identification of one-off items effecting revenues, expenses, assets and liabilities.

Controls and processes that require strengthening include:

- Need to develop policies and/or guidelines to support preparing the Long Term Financial Plan (LTFP). (Refer to 3.1)
- Other Council strategies and plans should be prepared and updated taking account of the implications of stated commitments and actions on the LTFP. (Refer to 3.1)

The reader should note the following sections of this report:

- Appendix 1 - Basis and Use of Report
- Appendix 2 – Personnel contacted during the audit
- Appendix 3 - Key to significance of risk rating
- Appendix 4 - Review approach

2 Background

Under the Local Government Act 1989 (the Act) Victorian councils are required to undertake certain longer term planning processes. These are to develop a Council Plan setting out the “strategic objectives” for the next four years and strategies for achieving those objectives which must be supported by a strategic resource plan. The strategic resource plan must set out the financial and non-financial resources required to achieve the strategic objectives and in particular “must take into account the services and initiatives” contained in the Council Plan. Further still, the Act requires that a budget be prepared for each financial year.

Warrnambool City Council is responsible for a range of services and the resources it controls. These services respond to statutory obligations imposed on all councils and services provided by the Council in response to community expectations and/or community or regional needs. Warrnambool City Council provides a number of non-statutory services such as tourism ventures (holiday parks and Flagstaff Hill) and operating a saleyard and aerodrome.

The ability of councils to provide services depends on a council’s ability to support the ongoing operating costs of services (payroll, supplies, overheads etc) and infrastructure assets including roads, drains, footpaths, parks and gardens and community buildings. These types of assets have long lives and require regular renewal and maintenance to achieve the most cost effective utilisation. Infrastructure assets have high values and require significant resources to ensure they are effectively managed.

Council has developed asset management plans to identify and understand the funding needs of its infrastructure (and other) assets as capital expenditure renewal, upgrade and expansion is a major imposition on funding. Due to the long life of these assets, asset management plans need to span an extended period of 10+ years to provide a reasonably complete overview of capital expenditure needs.

It follows that long term financial plans should provide a similar planning horizon as capital expenditure can be highly variable especially where new capital expenditure is, or major upgrades are, being or likely to be incurred. This enables significant funding requirements to be identified and facilitates assessment of the most appropriate method of funding.

Council has recently introduced a twenty year financial plan based on an outsourced spreadsheet model. (Before this time the existing finance system was being used to support long term financial planning. However, the TechOne application for long term forecasting is considered too complex and time inefficient.) The twenty year financial plan is prepared in conjunction with the annual budget process. Its preparation is based on the Council Plan, strategies, policies and asset and project management processes and assumptions. The first year of the current twenty year financial plan model will be for the 2019/20 budget.

Budgeting and long term financial planning commences around October/November. Finance, together with the Management Executive Group, set budget parameters which are used to develop a preliminary or target budget. The target budget provides a basis for reviewing expenditure with all branches across Council which in turn provides a basis for development of the next year’s budget.

An established process is used to engage Councillors, the Chief Executive, Directors and Managers in developing the budget and by extension the long term financial strategy. This results in the review and ultimately proposal from March to May of the budget for the following year.

Some of the contents of the LTFP are presented in a number of documents including the formal budget for the following year and the Council Plan which incorporates the Strategic Resource Plan. However, the LTFP is contained in full in a separate and dedicated document.

The current long term financial plan is in spreadsheet form contains a number of separate worksheets including key assumptions, financial performance and position ratios (including the Victorian Auditor-General's and Local Government Performance Reporting indicators), key financial statements (income statement, balance sheet, cash flow statement and capital works plan, borrowings and payroll data.

The current iteration of the long term financial plan indicates Warrnambool City Council's sustainability for about the first ten years but increasingly severe threats in the second ten years. However, this is of course subject to the validity of the assumptions.

To this end it is noted that the long term financial plan assumes that rates will increase by 2.5% per annum for twenty years and for the three years 2019/20 to 2021/22 a rate cap variation of 2% (that is 2.5% plus 2% for total rate increases of 4.5%) will occur.

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	3.1 Policies and guidance need to be developed					
1	<p>The Long Term Financial Plan (LTFP) has been developed as a management initiative. Its preparation has been based on the spreadsheet model acquired and it is used in conjunction with the budgeting (including the Strategic Resource Plan and capital works planning) process using management's skill and expertise in developing assumptions.</p> <p>However, there is no formal basis for linking the contents of the LTFP with other Council strategies and plans.</p> <p>In addition, other Council strategies and plans have been developed without specific consideration of the potential impact the objectives and actions set out in those documents may have on the LTFP. (There are over thirty-five strategies and plans.)</p> <p>It is understood that some Council strategies and plans are ambitious or aspirational in nature setting out specific desired outcomes which will require substantial investment. These goals and actions are not costed and not specifically incorporated into the LTFP.</p> <p>Further, Council has not developed any guidance as to what constitutes acceptable levels of financial performance and financial position. (It is noted that the LTFP incorporates the Victorian Auditor-General's Office (VAGO) and Local Government Performance Reporting Framework (LGPRF) financial performance measures.</p>		●		<p>1. Policies and/or guidelines need to be developed setting out the basis upon with the LTFP is prepared including:</p> <ol style="list-style-type: none"> The process through which the LTFP is prepared and updated annually; How the LTFP is to link with the Council Plan and Strategic Resource Plan and other Council strategies and plans. <p>2. Other strategies and plans should be prepared and updated with consideration of their impact on the budget, strategic resource plan and/or LTFP.</p> <p>This could include identifying whether Council actions are expected to be completed under existing operating budget, expansions to operating budgets or 'one off'</p>	<p>Management Comments:</p> <p>Agree</p> <ol style="list-style-type: none"> A guideline will be developed setting out the principals of the LTFP and how it links to other strategic plans Other strategies and plans will include a section on how the actions will be funded through the LTFP The guidelines will include targets around the VAGO & LGPRF measures which will be reviewed and agreed by Council. <p>Responsible Person & Position:</p> <p>David Harrington</p> <p>Target Date:</p> <p>31/10/2019</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<p>However, there is no indication as to what is considered acceptable to Council and/or the extent to which adverse indicators may be tolerated in the short term.</p> <p>Without formal policy and guidance:</p> <ul style="list-style-type: none"> • There is reliance on the diligence and expertise of management to maintain long term financial planning • The LTFP may not give due consideration to the contents of other strategies, plans and policies • Council strategies, plans and policies may be developed without due consideration of potential financial impacts on the LTFP • The LTFP may not reflect Councillors' goals and risk appetite for financial performance and financial sustainability. 				<p>project or capital works budgets.</p> <p>3. Council should review the VAGO and LGPRF financial indicators and set parameters as to what constitutes acceptable outcomes for financial performance and position across the LTFP. This could include progressing from stringent requirements in the short to medium term to less stringent expectations in the medium to long term.</p>	
	3.2 Need to develop a clear understanding of Council's roles and service expectations					
2	<p>The Council Plan (2017-2021) states that Council's objectives are to:</p> <ul style="list-style-type: none"> • Sustain and enhance the natural environment • Foster a healthy city that is socially and culturally rich • Maintain and improve the physical fabric of the city 		●		<p>4. Management need to undertake an ongoing program of service reviews to determine Council's required service levels and the infrastructure assets to support the delivering of these services. This should be supported by community consultation and overlaid</p>	<p>Management Comments:</p> <p>Agree</p> <p>4. Management will undertake an ongoing program of service reviews to determine Council's required service levels and the infrastructure assets to</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<ul style="list-style-type: none"> Develop a modern economy with diverse and sustainable employment Practice good governance through openness and accountability <p>Within this Council Plan, strategies and indicators are outlined and assigned so the delivery of the Plan can be measured. However, in discussion with management and through a review of the available documentation there is no specific consideration of the the types and level of services Council should provide to the community. Services provided should be aligned to the strategic direction. The absence of this alignment may result in resources being directed to delivering services that are not the priority of the community.</p>				<p>against Councils existing strategies and maximizing the efficiency of Council funds.</p> <p>The service reviews should be conducted at an appropriate level which will determine the relevant quality and cost standards for that particular service.</p>	<p>support the delivering of these services. This should be supported by community consultation and overlaid against Councils existing strategies and maximizing the efficiency of Council funds. The service reviews should be conducted at an appropriate level which will determine the relevant quality and cost standards for that particular service.</p> <p>Responsible Person & Position: Peter Utri, Director Corporate Strategies</p> <p>Target Date: 31/12/2019</p>
	3.3 Improved accounting for capital works spending					
3	Capital works has a significant impact on the LTFP. This occurs in several ways:		●		5. The actual compared to budgeted capital works should be reviewed annually to assess the impact variations in the	<p>Management Comments: Agreed</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<ul style="list-style-type: none"> The amount allocated for capital works spending each year – Council has control over this amount through the budget process; The extent to which the capital works budget is delivered, including whether expenditure occurs when budgeted and cost over/under runs – subject to the quality of works identification, scoping, tendering and contract management - is understood to have been variable; In response to funding opportunities (grants) which require Council funding inconsistent with the prioritised capital works plan and the impact such works have on Council’s maintenance and renewal costs – such items are highly variable and dependent on available grants; and Potential savings or increases in operating costs – capital bids provide for whole of life operating costs to be recorded but the quality and completeness of this information is variable and to some extent at least increases in operating costs are expected to be managed through departmental budgets. <p>Also, capital works planning covers a fifteen year period while the LTFP is for 20 years. Therefore, the final five years of the LTFP takes account of capital expenditure on a global basis only.</p> <p>If capital works are not planned in accordance with objective criteria and delivered on time and within budget long term</p>				<p>budget have or may have on the LTFP.</p> <p>This could be done in conjunction with a year-end review of the capital works budget delivery.</p> <p>6. The LTFP policy and/or guidelines should incorporate consideration as to how whole of life costs are developed and incorporated into the LTFP.</p> <p>This could include the service manager responsible for the capital bid clearly specifying whether any increase in operating costs is to be managed under existing budgets or requires additional recurrent budget funds.</p> <p>7. Capital funding allocations made to take advantage of grant opportunities should be considered using scenario analysis in the LTFP to understand the long term implications of such capital expenditure.</p>	<p>5. Council to perform review of capital works performance on an annual basis to assess the impact to the LTFP. This will be done as part of the end of financial year review.</p> <p>6. The guidelines will include a methodology for ensuring whole of life costs are considered in the LTFP. A new Capital/Project submission form has been developed to assist in the collation of this information.</p> <p>7. The LTFP will become a live document which will assist in the assessing of capital funding opportunities. These opportunities should link into existing strategic plans or the Council Plan</p> <p>8. Management to align the asset management and LTFP over the same timeframe.</p> <p>Responsible Person & Position:</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	financial performance and position outcomes can be materially adversely affected.				8. Management need to ensure that the timeframe for asset management/capital works planning aligns with long term financial planning.	David Harrington, Manager Financial Services Target Date: 31/10/2019
	3.4 Response to adverse medium to long term outcomes in the LTFP					
4	<p>In its current iteration, the LTFP projects, using the VAGO financial indicators, reasonable financial outcomes through to 2024/25.</p> <p>In these years the indicators are predominantly green with some amber showing for the underlying net result, unrestricted liquidity, internal financing and capital replacement ratio. In 2018/19 and 2019/20 unrestricted liquidity drops into red by marginal amounts.</p> <p>However, from 2025/26 unrestricted liquidity becomes red at 0.75 and progressing to -1.31 in 2037/38. Similarly, liquidity deteriorates from 0.69 in 2025/26 to -0.80 in 2037/38. The underlying net result, internal financing and capital replacement ratio also deteriorate from around 2025/26 to 2037/38 although generally in the amber zone.</p> <p>It is noted that the LTFP provides for borrowing in 2018/19 (\$6m), 2019/20 (\$3m) and 2021/22 (\$1m) with all debt repaid by 2030/31. Also, rate cap variations are assumed to</p>		●		9. Review of the LTFP should occur in conjunction with assessing financial performance and sustainability outcomes against acceptable performance outcomes (refer 3.1 above) across the entire term of the LTFP.	<p>Management Comments: Agreed</p> <p>9. The LTFP will be reviewed and assessed annually with actions taken to ensure acceptable performance outcomes against targets.</p> <p>Responsible Person & Position: David Harrington, Manager Financial Services</p> <p>Target Date: 30/06/2019</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<p>occur at a rate of 2% for three years from 2019/20 to 2021/22.</p> <p>Consequently, it is not clear that due consideration has been given to the medium to long term and actions required to address falling financial sustainability.</p>					
	3.5 Embedding the LTFP in decision making					
5	<p>The LTFP, in its current form, has only been in place for several months. Prior to this, long term financial planning was undertaken using a simpler spreadsheet model and the TechOne finance system (which was found to be too complex and time consuming).</p> <p>The current LTFP uses an outsourced spreadsheet model incorporating the prior year actual, current year budget and forecasts for following years.</p> <p>In developing the LTFP a “base” forecast was prepared together with another providing options to improve financial outcomes which was provided to Council for review.</p> <p>During any year, Council will be faced with a range of decisions which impact on Council finances. Such decisions will generally be subject to a report which includes the financial implications. However, this may not fully reflect the impact in the medium to long term. If the LTFP is not embedded into high level decision making the value of the LTFP will not be optimised.</p>		●		<p>10. The LTFP should be developed to enable summary scenario analysis by incorporating ‘one off’ changes to key inputs (revenues, expenditure, capital works etc).</p> <p>The LTFP should then be available for use in Management Executive Group and Council meetings or information forums.</p>	<p>Management Comments:</p> <p>Agreed.</p> <p>10. The LTFP will be further enhanced so that scenario analysis can easily be performed live for the executive, Council and others.</p> <p>Responsible Person & Position:</p> <p>David Harrington</p> <p>Target Date:</p> <p>31/10/2019</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	3.6 Developing the use of the LTFP					
6	<p>The LTFP only exists as a spreadsheet. Key data from the LTFP has been used to populate and inform PowerPoint presentations to Council but the LTFP does not otherwise exist as a standalone document. Consequently, access to the data and results of the LTFP is reduced. Further, there is no explanation of the rationale behind the LTFP to assist a user in understanding its purpose, status and basis of preparation.</p> <p>The LTFP is inherently focussed on the future. This is logical and natural. It includes the VAGO and LGPRF financial performance and sustainability measures and graphical presentation of key data and statistics. However, there is no presentation of recent actual performance. This data is relevant in extending the period under review and better understanding trends, especially in presenting recent actual results against budget and forecast information.</p>			●	<p>11. All key data (revenue, expenditure, capital budget and VAGO and LGPRF ratios) should be presented in graphical form including the three prior actual years and twenty year forecast.</p> <p>12. The LTFP should be presented in a separate summary report form setting out its basis, purpose, rationale for key assumptions and specific justification for any significant and unusual financial performance and sustainability outcomes.</p>	<p>Management Comments:</p> <p>Agreed.</p> <p>11. LTFP to be updated so that all key data (revenue, expenditure, capital budget and VAGO and LGPRF ratios) should be presented in graphical form including the three prior actual years and twenty-year forecast.</p> <p>12. A separate summary report form setting out its basis, purpose, rationale for key assumptions and specific justification for any significant and unusual financial performance and sustainability outcomes will be developed.</p> <p>Responsible Person & Position:</p> <p>David Harrington, Manager Financial Services</p> <p>Target Date:</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
						310/10/2019
	3.7 Need for periodic review of LTFP					
7	<p>The LTFP is based on a relatively sophisticated model but is prepared at a whole of organisation level. It incorporates a range of assumptions including assumptions for revenue and expense changes.</p> <p>While revenue changes generally have a higher degree of certainty with greater control exercised by Council, there may be substantial differences in the rate at which various costs change. For example, in recent years there have been large increases in the cost of fuel, electricity and gas as well as some capital works inputs such as bitumen. However, overall materials and services are assumed to increase by 2.5% to 3.0% per annum and utilities by 3.0% per annum. Also, there is scope for significant variations in other assumptions such as the amount of capital works expended.</p> <p>Although long term financial planning is relatively young there is no formal process to review previous long term financial planning to better understand the accuracy of earlier assumptions. Consequently, there is little or no scope to build confidence in the integrity and reliability of the model.</p>			●	<p>13. Management need to at least every four years, (in conjunction with development of the strategic resource plan following Council elections), the prior LTFP's should be compared against current year actual results to identify material variations.</p> <p>14. The performance and outcome of this review should form part of the summary LTFP report for the following year.</p>	<p>Management Comments: Agreed. 13 & 14</p> <p>Reviews of previous LTFP's to occur at least every 4 years (in line with the SRP) will occur to identify material variations. The variations will analysed and will help inform the assumptions going forward.</p> <p>Responsible Person & Position: David Harrington</p> <p>Target Date: 30/06/2022</p>
	3.8 Improving the efficiency and effectiveness of long term financial planning					

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
8	<p>Council's TechOne finance system includes a long term financial planning application. This application has been reviewed but is considered too complex and time consuming for efficient and effective use.</p> <p>The current outsourced spreadsheet model is understood to be significantly more efficient and still effective for planning purposes. However, this model still requires substantial manual input, particularly in relation to rolling over and updating from year to year. It also incorporates assumption values into some formulas which reduces its efficiency and increases the scope for error and omission.</p> <p>As a provider of statutory services to its community which are dependent on the financial viability of the Council, manager of long life infrastructure assets and steward of public funds, long term financial planning is essential in underpinning good decision making.</p> <p>If the LTFP cannot be developed efficiently and effectively there is greater risk that it is not properly maintained and fully developed.</p>			●	15. Alternative LTFP models should be investigated on an ongoing basis to ensure that Council has access to the most efficient and effective model.	<p>Management Comments: Agreed.</p> <p>15. Management to review alternative LTFP models to ensure Council has access to the most efficient and effective model.</p> <p>Responsible Person & Position: David Harrington</p> <p>Target Date: 31/12/2019</p>
3.9 Improvements to the LTFP model						
9	<p>The LTFP is based on an outsourced model which assists in ensuring its completeness and integrity. However, there are several opportunities to improve the spreadsheet model.</p> <p>We observed the following:</p>			●	16. Management need further develop improve the LTFP spreadsheet. Improvements could include:	<p>Management Comments: Agreed.</p> <p>16. The LTFP spreadsheet will be further developed to:</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<ul style="list-style-type: none"> • There is no separate expression of the rate at which the rate base (supplementary valuations) is forecast to occur. • User fees and charges revenue are expressed as a single item and changes from year to year are based on single percentage increase (of 1.0% to 1.25%). As such there is no scope to consider price and volume changes separately. For example, to provide for a 10% increase in holiday park charges but allowing for a, say, 6% decrease in bookings. • Some formulas incorporate the change assumption as a value rather than referring to the separately expressed assumption amount. Also, some formulas include the annual increase twice. (This appears to occur predominantly in the “Capital Plan” worksheet.) • A separate “% Assumptions” worksheet exists. However, some other assumptions are contained in other worksheets. For example: <ul style="list-style-type: none"> ○ CPI, Council rate increase, rate cap variation, efficiency factor, borrowings and EFT count (among others) are included as “Scenario Variables” in the “Indicators” worksheet; ○ The proportion of cash held in term deposits (75%) is included in the term deposits formula in the “Balance Sheet” worksheet. 				<ul style="list-style-type: none"> • incorporation of the rate revenue increase from supplementary valuations; • price and volume (usage) assumptions for non-statutory charges; • removal of anomalies in formulas; • single worksheet detailing all assumptions and graphs for all key indicators • corporate debt indicators as set out in the borrowing Strategy 	<ul style="list-style-type: none"> • Identify rate revenue increase from supplementary valuations; • Provide for price and volume (usage) assumptions for non-statutory charges; • Remove anomalies in formulas; • Provide a single worksheet detailing all assumptions; • Incorporate debt indicators as set out in the Borrowing Strategy; and • Include a single worksheet with graphs for all key indicators. <p>Responsible Person & Position: David Harrington</p> <p>Target Date: 31/10/2019</p>

3 Observations and recommendations

Finding Number	Current Situation	Risk Rating			Recommendation	Management Response
		H	M	L		
	<ul style="list-style-type: none"> Councils Borrowing Strategy sets acceptable debt indicators (being debt to rate revenue being less than 50% and loan repayments to rate revenue to be less than 8%) but these are not represented in the LTFP. There is no separate and comprehensive presentation of graphs for all key indicators, including VAGO and LGPRF ratios. 					

Appendices

Appendix 1 – Basis and Use of Report

This report is prepared on the basis of the limitations set out below:

We are engaged by Warrnambool City Council (the client) to provide internal audit services and the scope of our activities is determined by management and reviewed by the Audit committee.

This report has been prepared in accordance with the objectives and approach agreed in the engagement document and subject to the following limitations:

- Our procedures were designed to provide limited assurance which recognises that absolute assurance is rarely attainable, due to such factors as the use of judgment in gathering and evaluating evidence and forming conclusions, and the use of selective testing, and because much of the evidence available for review is persuasive rather than conclusive in nature.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe Horwath disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

The information in this Report and in any related oral presentation made by Crowe Horwath is confidential between Crowe Horwath and the client for which it was prepared and should not be disclosed, used or duplicated in whole or in part for any purpose except with the prior written consent of Crowe Horwath. An Electronic copy or print of this Document is an UNCONTROLLED COPY.

Appendix 2 - Personnel contacted during the audit

Risk Consulting would like to thank the following personnel for their assistance in the conduct of this review.

CONTACT	POSITION	TELEPHONE	EMAIL
Bruce Anson	Chief Executive Officer	5559 4800	banson@warrnambool.vic.gov.au
Scott Cavanagh	Director City Infrastructure	5559 4800	scavanagh@warrnambool.vic.gov.au
David Harrington	Manager Financial Services	559 4971	dharrington@warrnambool.vic.gov.au
Wendy McGorm	Financial Accountant	5559 4800	wmcgorm@warrnambool.vic.gov.au
Jodie McNamara	Manager City Strategy & Development	5570 4403	jmcnamara@warrnambool.vic.gov.au
Shaun Miller	Manager Economic Development and Investment	5559 4800	smiller@warrnambool.vic.gov.au
Andrew Paton	Director City Growth	5559 4800	apaton@warrnambool.vic.gov.au
Ben Story	Manager Facilities & Projects	0409 797 842	bstoreye@warrnambool.vic.gov.au
Peter Utri	Director Corporate Services	5559 4800	putri@warrnambool.vic.gov.au

Appendix 3 - Key to significance of risk rating

Key to significance of risk rating

Rating	Definition	Guidance	Action required
High	Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives.	<ul style="list-style-type: none"> • Material errors and departures from the organisation's policies and procedures • Financial management / accountability / probity concerns • Non-compliance with governing legislation and regulations may result in fines or other penalties • Collective impact of many moderate or low issues 	<ul style="list-style-type: none"> • Requires senior management intervention and may require significant mobilisation of resources, including external assistance. • Ongoing resource diversionary potential. • Requires high priority to immediate action
Moderate	Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.	<ul style="list-style-type: none"> • Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation • Departures from best practice management procedures, processes 	<ul style="list-style-type: none"> • Requires management intervention and may require possible external assistance. • Requires prompt action.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> • Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance • Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. 	<ul style="list-style-type: none"> • Requires management attention and possible use of external resources. • Requires action commensurate with the process objective.

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Appendix 4 - Review approach

The audit was conducted primarily by applying discussion, observation and review techniques with limited detailed testing being undertaken. The approach focussed on:

- understanding through discussion and observation the management processes in place;
- documenting and evaluating the methods associated with control and management; and
- assessing the possibility of risk to Council.

In finalising the report management were requested to review the report for any factual errors which they believe should be addressed.

In addition, management have provided responses for each recommendation in section 3. We requested that management clearly identify:

- if management agrees, disagrees or partially agrees with the finding;
- what action is to be taken;
- who will be responsible for the proposed action; and
- when the issue is likely to be addressed.

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