



Yarriambiack
SHIRE COUNCIL

Long Term Financial Plan

2026 – 2036

www.yarriambiack.vic.gov.au



Adopted by Council
date

Acknowledgement of Traditional Owners

‘We acknowledge that the activities of this Council and Community Plan are being held under the traditional skies and in the waterways and lands of the Wotjobaluk, Jaadwa, Jadawadjali, Wergaia and Jupagulk people, and Council pays respects to their Elders past, present and emerging as the custodians of the environment’



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**This report was produced in collaboration with LGeX.*

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EXECUTIVE SUMMARY

Yarriambiack Shire is a rural Shire located in Victoria's north-west in the heart of the State's wheat belt. With its population largely concentrated in a host of small rural townships which service the surrounding broad hectare farm properties, it has several unique characteristics compared to many other rural Shires.

With an ageing population and demand for services which meet the changing needs of the community, it has a range of financial challenges to both meet these requirements and remain financially sustainable.

This report aims to independently assess the Council's current financial position and act as an input document into the redevelopment of the ten-year financial plan. The assessment will review whether the Council's current financial strategy is soundly based.

The review will cover various components and provide commentary on where the current financial strategy, including current strategies and management practices, could be further enhanced.

The review is written to provide insight and recommendations to the current administration and the Council. It further aims to address some of requirements expressed by the Audit and Risk Committee.

The key topics covered in this report are therefore:

1. A review of the Council's financial sustainability indicators and its current financial health under this framework. Some indicators include commentary regarding their movement over the ten-year financial plan.
2. A review of the Council's current financial position using various cash budget models, including how this position will move under the current financial model.
3. An understanding of key financial challenges faced by the Council and where relevant some recommendations on how the Council should seek to address these challenges.

1.1. REPORT BASIS

This report is based on the Council's current long-term financial model and the 2025-26 Annual Budget and Annual Financial Statements. The conclusions drawn in this report rely upon the accuracy of that model.

1.2. REVIEW CONCLUSIONS

The following conclusion are drawn from this review.

1. From the financial health check that was undertaken comparing Yarriambiack Shire Council to a like group of small rural Councils, the Council is under some financial pressure across many of the indicators presented. The ratios in Appendix 1 review the Council's financial position at both 30 June 2024 and 2025.
2. If a credit check style score was applied to the Council at this point, it has been assessed at the C to C+ range which is quite low.
3. The areas of greatest concern for the Council in the review of its financial health are its low level of cash funds held, marginal liquidity moving forward and strong concerns over its forward level of capital funding into the future which will have implications for its ability to adequately renew its assets.
4. On a positive note, the Council is operating efficiently with its net operational surplus (operating revenues less operating expenditures) being better than average.
5. At the commencement of this review, the initial scope was to undertake an analysis and review of the Council's existing long-term financial model. The existing model was not found to be sufficient on several fronts and LGeX has worked with the Council to implement a new model that provides a much more accurate base for financial decision making moving forward.
6. The new model has been based on what is financially affordable and sustainable for the Council in future years. This has required a reduction in capital funding to achieve this outcome. The model includes the implementation of a reconciled cash budget approach which is outlined in the review.

7. There is further work required for the financial model to reach full maturity including having input into the future year forecasts by the various service managers and improving the linkage between the financial model and the asset management plan. The model at this point however is soundly based.
8. This report has included a high-level review of the asset management plan currently out for community consultation. Given the legislative timelines to adopt both the 10-year financial plan and asset management plan by 31 October 2025, there are some disconnections now between the draft asset management plan and the newly formed financial model which will need to be addressed once the Council has met its legislative obligations.
9. The asset management plan highlights the condition ratings for the various asset classes which are concerning in some areas and particularly the major infrastructure (roads, kerb and channel, footpaths) groups. With assets deteriorating more towards the end of their useful lives, Council should be spending more than annual depreciation charges to renew its existing assets.
10. The future financial model has Council spending on average around 70% of annual depreciation charges and with recent increases in annual depreciation that may not yet be fully built into the financial model, the actual outcome may be lower than this amount.
11. As indicated the model has been based around what the Council can afford whilst maintaining a sound financial position. The next step for the Council will be to understand what this level of funding will mean for its asset conditions moving forward.
12. The financial model has included a proposed change to Council reserve funding with the introduction of a new Council Reserve for strategic asset management. The model includes an annual transfer to this reserve of \$250,000. The reserve is to serve the dual purpose of providing future funding for new and/or upgraded Council assets and to provide a level of contingent funding for the Council should adverse financial events occur.
13. The review notes the current Council direction to move its Waste Charges to a full cost recovery basis and supports the ongoing change in this direction. Council should further review the components of what makes up full cost recovery with other like Councils. Council can include areas such as corporate overheads in the waste costs to be recovered.
14. The ongoing issues with accounting for changes in the timing of the Victorian Grants Commission grant are reviewed in the report. The model forecast result for 2025/26 assumes that the advanced payment will not continue and that the Council therefore will only receive 50% of its annual funding in 2025/26 (with the remaining 50% having been paid in late 2024/25). Should the Grants Commission advance funding in June 2026, it is recommended that any advanced funding be reserved.
15. The report notes that financial challenges that the future holds for Yarriambiack Shire Council are quite significant. The options that are available to the Council (which are not mutually exclusive) are:
 - a. Accept the status quo and continue to operate as is noting that asset conditions will worsen over time.
 - b. Drive down operational costs and where possible look to increase all other sources of Council controlled income to increase funding for capital.
 - c. Advocate for increased levels of both operational and capital grant funding which do not require any matching funding obligations.
 - d. Review the potential to make an application to increase Council rates above the rate cap.
16. Should the Council wish to pursue a rate cap variation there is much to be learnt from the case study provided by Hepburn Shire Council which has recently increased its rates by 10%.
17. From a summary perspective, this review has resulted in the Council now having in place a soundly based financial model from which it can now develop various scenarios moving forward. The work completed by the Council's Chief Financial Officer to get to this outcome is acknowledged.

INDUSTRY CONTEXT

2.1. OVERVIEW

The following report outlines that the financial future for Yarriambiack is quite challenging on several fronts. It is however important to understand the industry context where this same position is also being experienced by most other Councils.

This sector-wide financial pressure is being reflected in several ways at present.

2.2. RATE CAPPING

Rate Capping was introduced by the Victorian State Government in 2016/17 and has applied for the past ten financial years.

The rate cap is announced in December of each year to be applied in the following financial year.

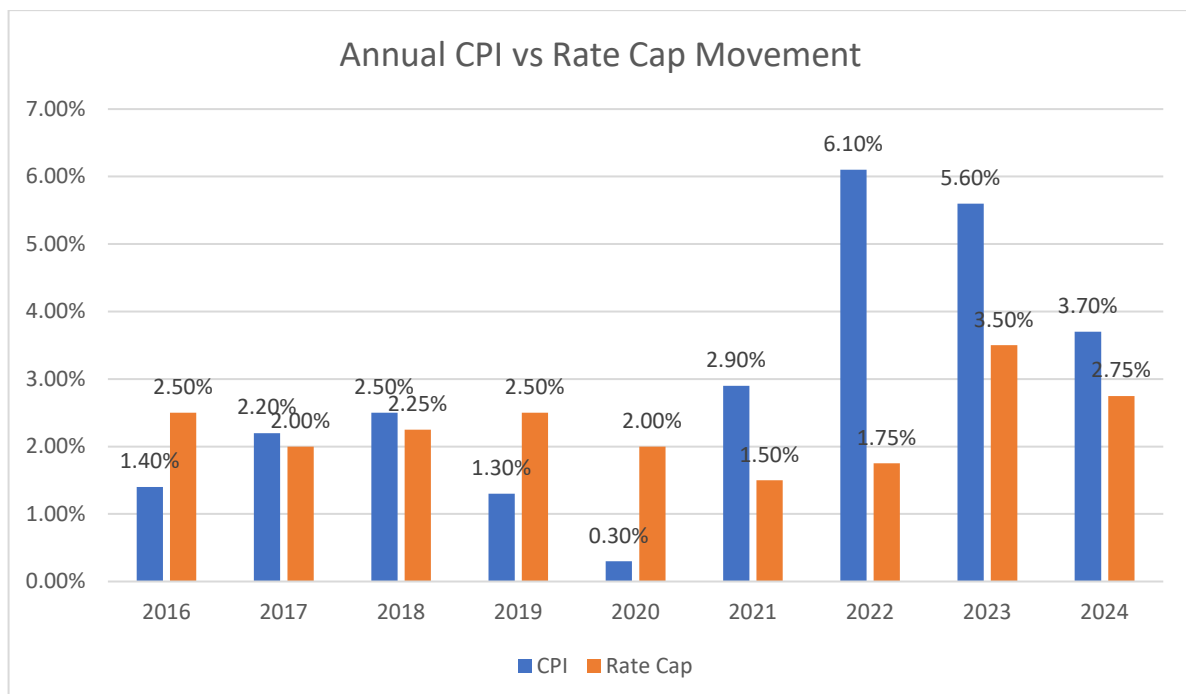
In its infancy, the rate cap was aligned to the forecast CPI established by the Department of Treasury and Finance. As CPI increased, however, the State Government moved away from this model and set the cap well below CPI even though the costs for Local Government to deliver services were rising above CPI.

CPI is not an index that applies well to Local Government. It is based on a basket of goods that are not central to what Local Government procures. An index that is based on the Wages Price Index and the Construction Costs Index would be a more appropriate indication of local government costs.

Over the past four years, Councils have seen a significant increase in the cost of delivering infrastructure projects. In many cases, this has been as much as 30%.

Given these cost pressures, the rate cap is now a key factor in the diminishing financial sustainability of most Councils.

The graph below shows the historical rate caps that have been applied with a comparison to the actual Consumer Price Index in those years.



2.3. COST SHIFTING

Another key factor influencing the financial sustainability of local government is the ongoing shifting of costs from Federal and State Governments to local government.

Cost shifting occurs in two principal ways. They are where other tiers of government:

- Reduce the funds allocated to Local Government in real terms, yet expect the same, if not higher levels of service delivery.
- Introduce new responsibilities for Councils without accompanying them with adequate resources.

A recent paper prepared by Mornington Peninsula Shire Council (MPSC) highlights numerous examples of both of these types of cost shifting but the examples apply equally to all Councils across the industry.

Some of the most notable examples include:

- Increased responsibilities for Electrical Line Clearance with no matching government funding.
- Increased responsibilities with waste services to introduce both glass recycling and Food Organics Garden Organics (FOGO) as mandatory services.
- Shifting responsibilities in Building Services and Victorian Building Authority requirements to Councils, including services such as Swimming Pool and Barrier Compliance and combustible cladding without any resourcing.
- Moving away from the traditional funding partnership for Libraries which was initially 50/50 to the point where Mornington Peninsula Shire Council now funds 83% of the total cost of library services.
- Similarly, MPSC is now responsible for 66% of maternal and child health costs up from an initial 50/50 partnership.
- School Crossing supervision is a service that Councils have no legislative obligation to provide but does so from a community responsibility perspective. Despite this service commencing at a 50/50 split, MPSC now funds 77% of the total cost.
- The State Government has announced in recent years the Best Start/ Best Life program which includes 15 hours a week of free kindergarten for 3-year-olds and increasing four-year-old kindergarten services from 15 hours a week to 30 hours. These services are largely provided within facilities owned by MPSC many of which are old, not fit for purpose and on constrained sites that cannot be changed to meet this new demand. MPSC has estimated the capital cost to comply with the new requirements to be \$54M and whilst some grant funding is available it will fall a long way short of this amount. No funding is available for the ongoing operational and management costs of these expanded facilities.
- According to Municipal Association of Victoria figures, between 2014 and 2018, Councils across Victoria invested \$478 million in early years infrastructure which was three times the amount invested by the State. This is despite there being no obligation under the legislation for local government to provide early years infrastructure.
- The State Government have mandated that all Local Governments appoint a Municipal Emergency Management Officer and a Municipal Recovery Manager as senior Council officers. There is no State funding for these roles. In addition, the inadequacy of State funding for Vic SES has required the Council to provide additional grant funding.

The list from MPSC is more extensive than above and these same outcomes will in many instances also apply to Yarriambiack Shire Council.

2.4. STATE GOVERNMENT COMMITTEE INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

In November 2024, the State Government Legislative Council Economy and Infrastructure Committee released its findings on an Inquiry held into Local Government Funding and Services. These findings were produced following the Committee meeting and hearing from many of Victoria's Councils.

Whilst there were over 40 findings in the report the following were the most noteworthy.

Local government in Victoria

FINDING 1: The costs of infrastructure and service delivery have risen at a pace that outstrips the growth in grant funding.

FINDING 19: Victorian councils face a trend of deteriorating financial sustainability across all council types, a trend predicted to continue over the next five to ten years, due at least in part to cost shifting.

FINDING 20: Rate capping and cost shifting has significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.

FINDING 3: Local councils are facing increased budget pressures due to cost shifting by state and federal governments. Without substantial changes, the financial sustainability of council operations is at risk, with some services already being reduced or discontinued entirely.

RECOMMENDATION 1: That the Committee send a request to the Victorian Auditor-General to investigate and report on the financial impacts of cost-shifting from state and federal governments onto all Victorian councils.

2.5. VICTORIAN AUDITOR GENERALS REPORT ON FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT

In August 2025, VAGO released its performance report on Financial Management in Local Government which examined five Councils and looked at some sector-wide financial data.

There were several findings in the report but most notable was Key Finding 1 which is produced below.

Key finding 1: Most councils can meet their current financial obligations, but key sustainability indicators are declining

Most councils met their past financial obligations, but there are increasing risks

Most councils met their past financial obligations and are meeting their current obligations. But key financial indicators for most councils are trending down.

Across the sector and for most audited councils:

There are increasing risks that some councils, particularly the small shires, may not meet their future obligations to their communities if they do not act.

Supporting sustainability indicators show councils results are declining

We also reviewed councils adjusted underlying results, unrestricted cash and cash balances as supporting indicators for financial sustainability.

Across the sector, and for most audited councils, the adjusted underlying results have been declining. This means the sector's ability to pay for ongoing operating costs from their own-source revenue is decreasing.

An ongoing downtrend in this indicator suggests a council is not managing its expenditure, growing its own-source revenue or managing service programs' viability, which creates longer-term risks to financial sustainability.

Reported unrestricted cash balances for the audited councils are also declining.

2.6. INTEGRATED PLANNING

This section describes how the plan links to the achievement of Council's Community Vision, Our Council Plan and other strategies within an overall integrated planning and reporting framework.

This framework guides the Council in identifying community needs and aspirations over the long-term (Community Vision and Financial Plan), medium term (Our Council Plan, Workforce Plan, and Revenue and Rating Plan) and short term (Budget) and then holding itself accountable (Annual Report). The timing of each component of the framework is critical to the successful achievement of the planned outcomes.

The diagram below depicts the integrated planning and reporting framework that applies to local government in Victoria. At each stage of the integrated planning and reporting framework there are opportunities for community and stakeholder input. This is important to ensure transparency and accountability to both residents and ratepayers.



Service Level Planning

Yarriambiack Shire Council delivers a wide range of services, infrastructure and facilities to the community. Although councils have a legal obligation to provide some services such as animal management, local roads, food safety and statutory planning, most council services are not legally mandated, including some services closely associated with councils such as libraries, building permits and sporting facilities.

Over time, the needs and expectations of communities' change. Therefore, councils should have robust processes for service planning and review to ensure all services continue to provide value for money and are in line with community expectations.

The plan assumes current services and agreed services levels are maintained throughout the life of the plan. Future plans will be reviewed and amended for any proposed changes in services, service levels or service delivery models.

3. REVIEW OF COUNCIL'S FINANCIAL SUSTAINABILITY

3.1. COUNCIL'S COMPARATIVE FINANCIAL HEALTH

Appendix 1 of this Review includes the full comparative report.

The review's approach is to address financial health like an individual would address their own financial health.

This includes asking the following questions:

Balance Sheet

- What level of assets does the Council own/hold?
- Of these assets, what is the amount of assets that are 'realisable' as compared to assets such as roads/parks/drains, etc?
- What level of cash funds are held by the Council?
- What is our liquidity like – do we have enough short-term assets to cover our short-term liabilities?
- How well is the Council looking after its assets?
- How much does the Council owe in terms of loans?
- What are our debt ratios compared to others?
- What level of Reserve funds do we hold for future investment?

Income Statement

- What is our level of total operating revenue compared to others?
- What is our level of rates compared to others?
- Are our rates affordable?
- Are we able to collect our rates?
- How much do we receive in fees compared to others?
- What is our relative grant revenue?
- How much are we spending compared to others?
- Based on our revenue and expenditure – what level of operational surplus are we generating to put towards capital expenditure/debt redemption
- How much of our expenses are tied up in employee costs?
- What is the balance of the expenses we use to purchase materials and services provided directly by staff employed by the Council?

3.2. OUTCOMES OF FINANCIAL SUSTAINABILITY REVIEW

The report provides a detailed summary of the outcomes of the comparative financial health indicators regarding Yarriambiack Shire Council's current and future positions (See page 23).

An easy and understandable way to portray an assessment of financial health is to use the same framework that banks have their credit rating assessed.

That being:

A+, A, A-, B+, B, B-, C+, C, C-

If a credit rating were to be applied to Yarriambiack Shire Council as of the date of the comparative financial indicators (30 June 2024), the rating assessed would be in the C to C+ range. It is important to note that this rating is not likely to be maintained based on the current future financial forecasts.

The rating is based on the following observations.

- Comparatively Yarriambiack Shire Council is asset poor. This applies to both the level of infrastructure assets but more importantly realisable assets such as land, buildings and the level of cash holdings. This does come with a benefit of having a lower level of renewal requirements and annual depreciation charges compared to most other Councils but also means that Council is less able to realise assets to improve its financial outcomes.
- The level of cash funds held by the Council is low as a percentage of Total Revenue in comparison to other Councils. The cash balance of \$6.8M on 30 June 2024 decreased considerably in that financial year due to the non-receipt of the previously 100% advanced Victorian Grants Commission payment.

The level of low cash funds is a concern should there be any adverse events that impact on the Council moving forward. The Council has no contingent funding it can utilise.

- Council's liquidity (Working Capital Ratio) is adequate at 134% but below most other Councils. This figure also includes the 50% advanced Victorian Grants Commission in 2024/25 and if this was removed, the ratio would be close to the minimum outcome of 100%. Council has very little scope to manage any adverse financial events in the future.
- On the back of a low level of depreciation and a high capital works effort in terms of asset renewal and upgrade, the Council performed strongly in 2023/24 in the ratio that measures renewal and upgrade expenditure compared to annual depreciation. This result is not maintained in 2024/25 however and in future years with both depreciation increasing substantially and capital works expenditure falling. Future projections in this ratio are based on an average outcome of 70% which is below what is required to adequately maintain the Councils existing assets.
- Council borrowed \$500,000 in 2023/24 and this is its only indebtedness. It therefore has scope for future borrowings should they be required but this comes with the caveat that ongoing repayments of these borrowings would further reduce funds for annual capital. Borrowings are further discussed in the main report.
- Council has just \$15,000 in its only Reserve fund for aerodrome maintenance. This reserve is not strategic in nature and serves little purpose. Reserve funds are discussed more fully in the main report but used strategically they provide a valuable source of capital funding and a level of contingent funding in the event of adverse financial results.
- Council's overall revenue per assessment is lower than average off the back of rates per assessment which are on average, fee revenue which is well below average and slightly above average grant revenue. It is difficult to see how the Council will improve its fees outcome given the nature of the Council other than the potential for future partnerships with renewable energy projects.
- The Council is collecting its rate revenue slightly better than average which is a positive outcome. This outcome did however worsen in 2024/25 with a 22% increase in rate debtors.
- Off the back of lower revenues, the Council's expenditures per assessment are also lower than average. On a net basis looking at operating revenues less operating expenditures, Council is performing slightly better than average indicating that it is not operating inefficiently.
- Council has a service delivery model which is more heavily weighted to delivering services via Council employees rather than engaging external suppliers. This has the advantage of guaranteeing access to service providers but has some flexibility disadvantages and some potential higher risk with future wage growth.

4. REVIEWING COUNCIL'S CURRENT ACCUMULATED CASH SURPLUS

Local Government Financial Statements can be a difficult read in terms of understanding and analysing their content. They are prepared in accordance with Australian Accounting Standards and, as such, include several non-cash related entries that impact the value of Council assets. They also exclude several cash-related payments.

Currently, the main conversation around financial sustainability centres around achieving an ongoing underlying operating surplus. This means the Council is achieving a surplus of ongoing operating revenues greater than ongoing operating expenditures.

The measure remains valid and important in long-term financial planning but cannot be the only measure. It includes non-cash items such as depreciation and excludes cash items such as expenditure on capital works, loan repayments and proceeds and transfers to and from Council Reserve funds.

However, managing the Council's accumulated cash surplus remains a critical function. How does the Council balance its budget annually? How can it assess what level of capital funding is affordable? How can it ensure that its future financial position remains sound?

If you accept the notion that Councils are a not-for-profit break-even business, then it goes without saying that Councils should, therefore, have a process/methodology for measuring their accumulated cash position.

The approaches in Victorian Local Government vary greatly in answering this question. Unlike all other areas of financial management, which are governed by standards, regulations, and best practice models and guidelines, there is no standard industry practice for managing cash results.

4.1. WHAT MODELS ARE USED IN LOCAL GOVERNMENT?

4.1.1. *No model but broad cash awareness*

Most Victorian Councils do not apply any cash budget model.

However, having no model in place doesn't mean cash budgeting is not managed. Budgets are prepared to ensure that key ratios such as working capital remain positive and that the Council safely retains sufficient cash balances to fund operations and capital without extensively depleting cash amounts.

The problem with this approach is that it has no 'reference point' in balancing a result. Budgets are not prepared for a break-even cash result, and particularly when councils must manage in difficult financial times such as Covid, no model requires councils to make savings equal to the amount of funding required to deal with the financial issues.

4.1.2. *Using a straight Cash Flow approach*

Another alternate approach, which is quite straightforward, is to consider the cash asset balance and deduct from this the liabilities that need to be backed by cash assets—with the required result being a positive outcome.

Applying this to Yarriambiack Shire Council over the past two financial years would look as follows:

Cash Flow Statement Reconciliation Approach				
		2023-24	2024-25	
Description		Amount	Amount	
		\$'000's		\$'000s
Balance of Cash assets				
Current asset Cash	\$	6,382	\$	10,946
Other Financial Assets	\$	446	\$	467
Total Cash Assets on hand	\$	6,828	\$	11,413
Less				
Trust funds and deposits	-\$	466	-\$	611
Unearned Income (grants received in advance)	-\$	1,200	-\$	2,892
Employee Leave entitlements	-\$	3,075	-\$	3,115
Landfill and Gravel Pit Restoration (*)			-\$	754
Victorian Grants Commission Advance			-\$	3,564
Capital Works to be carried forward from prior year	\$	-		
Reserve Funds	-\$	15	-\$	15
Amounts to be deducted from cash	-\$	4,756	-\$	10,951
Net outcome	\$	2,072	\$	462

(*) This amount has been included at the request of Yarriambiack. It would not normally form part of this calculation.

As the table highlights, this approach indicates that the Council has a small residual cash surplus. The one figure that has not yet been included in this table are any capital works that are required to be carried over into the following financial year and to be funded from this balance.

It is a simple, easy-to-understand, and applied approach. However, movements in working capital, particularly accounts receivable and payable, can distort results.

4.1.3. Reconciled Balance Sheet approach

This model is the preferred approach to managing the Council's cash budget.

It is based on the Balance Sheet that allows the Council to measure its one-year movement in accumulated surplus and overall position.

The model is easier to explain in table form.

Description	Actuals 2024-25
	\$000'S
Operating Statement Surplus/(Deficit)	(1,432)
Management Accounting Reconciliation	
Add back Non-Cash Items:	
Depreciation	8,999
Amortisation Right of use	315
Leased assets disposed	119
Additional Landfill Provisions	388
Amounts used landfill provision	(104)
Change in the discount amount of landfill provision	4
Granted Assets	(6)
Transferred Assets	77
Surplus / Deficit investment in associates	60
Disposal of PPE	2,794
Subtotal	12,646
Less Non-Operating Cash Items:	
Capital Expenditure	8,521
Additions to Right of use assets	(29)
Transfers to Reserves	-
Transfers from Reserves	-
New Loan Borrowings	-
Loan Repayments	43
Lease Repayments	544
Subtotal	9,079
Cash Surplus/(Deficit) for year	2,135

The table starts with the Council's Income Statement result for 2023/24, which shows an Income Statement deficit of \$1.432M

This result is then adjusted by removing the impact of all the non-cash-related accounting entries and adding the cash entries that do not form part of the Income Statement result. From a cash perspective, it then arrives at a net cash surplus for the year of \$2.135M (keeping in mind that in this financial year the Council received a 50% advance payment of the Grants Commission funding)

This, however, is a one-year result. How do you reconcile it to be correct? What is the accumulated result as compared to a one-year outcome?

These questions are answered by using a Balance Sheet reconciliation.

Description	Actuals 2023-24	Actuals 2024-25
		\$'000's
Current assets (excluding land held for resale)	9,082	14,173
Non Current Assets - Receivables/Financial Assets only	219	154
Less		
Current liabilities (excluding loans/ leases/landfill provision)	-6,214	-9,028
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-225	-298
Reserves (excluding Asset Revaluation Res)	-15	-15
Raw Accumulated surplus	2,847	4,986
Movement Between Financial Years		2,139

In plain speak, this approach requires the Council to have enough current assets to fund its current liabilities (with exceptions), non-current liabilities (with exceptions), and its Other Reserve funds.

The exceptions that are not funded are:

- Loans – these are backed by the fixed assets purchased with the loan funds, with annual repayments forming part of the cash budget.
- Leases – same as loans
- Landfill provisions—These are backed by the periodic allocation of capital works to complete required rehabilitation and do not require the Council to fund entirely out of current assets.

It should be noted that the movement in the Balance Sheet (\$2.139M) for these items directly matches the one-year outcome recorded by the Council. (other than a minor rounding variation of \$4,000)

The method shows the Council has a forecast Raw Accumulated Surplus of \$4.986M. So, does this mean that the Council has this surplus?

Unfortunately, this is not the case. The Council needs to consider three other factors in reaching its final adjusted accumulated surplus.

These are:

1. Any operating funds being carried forward to the following financial year that is NOT already taken up as a liability in Unearned Income.
2. Capital works that must be carried forward for funding from the following financial year that is funded from Council rates. Note the figure that is required for capital works does NOT include any grants that have been recorded as unearned income.
3. Any advanced payment of the Victorian Grants Commission

With an adjustment for the advanced paid Grants Commission funding the outcome is therefore as follows.

Description	Actuals 2023-24	Actuals 2024-25
		\$'000's
Current assets (excluding land held for resale)	9,082	14,173
Non Current Assets - Receivables/Financial Assets only	219	154
Less		
Current liabilities (excluding loans/ leases/landfill provision)	-6,214	-9,028
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-225	-298
Reserves (excluding Asset Revaluation Res)	-15	-15
Raw Accumulated surplus	2,847	4,986
Movement Between Financial Years		2,139
Less Operational carryovers not included in unearned income		
Less Forward payment of the VGC grant (if not reserved)		3,564
Less Capital works to be carried forward to the next period		
Net Surplus/ (Deficit) Position		1,422

This method produces an accumulated surplus of \$1.422M. (similar in nature to the straight cash flow approach but in this case reconciled to the Balance Sheet movements).

5. REVIEW OF COUNCIL'S FINANCIAL POSITION THROUGH 2025/26 AND FUTURE YEARS IN THE LTFS

As noted in this report, LGeX has worked with the Council to introduce a new financial modelling approach and has built into this new model the reconciled balance sheet approach to all future years.

The forecast outcomes for the future years are contained below.

Description	Budget 2025-26	Forecast 2025-26	2026-27	2027-28	2028-29	2029-30
	\$000'S	\$000'S	\$000'S	\$000'S	\$000'S	\$000'S
Operating Statement Surplus/(Deficit)	429	(3,272)	(1,867)	(1,958)	(2,366)	(2,134)
Management Accounting Reconciliation						
Add back Non-Cash Items:						
Depreciation	7,822	7,822	8,351	8,493	8,631	8,770
Subtotal	7,822	7,822	8,351	8,493	8,631	8,770
Less Non-Operating Cash Items:						
Capital Expenditure	9,550	8,550	6,165	6,165	5,868	6,274
Additions to Right of use assets	-	-	-	-	-	-
Transfers to Reserves	-	-	250	250	250	250
Transfers from Reserves	-	-	-	-	-	-
New Loan Borrowings	-	-	-	-	-	-
Loan Repayments	43	43	45	47	50	52
Lease Repayments	-	-	-	-	-	-
Subtotal	9,593	8,593	6,460	6,462	6,167	6,576
Cash Surplus/(Deficit) for year	(1,342)	(4,043)	24	73	98	60

Description	Budget 2025-26	Forecast 2025-26	2026-27	2027-28	2028-29	2029-30
	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's
Current assets (excluding land held for resale)	12,122	9,339	9,615	10,231	10,874	11,484
Non Current Assets - Receivables/Financial Assets only	154	154	154	154	154	154
Less						
Current liabilities (excluding loans/ leases/landfill provision)	-8,251	-8,169	-8,100	-8,323	-8,547	-8,778
Non Current Liabilities (excluding loans/ leases/ landfill provision)	-369	-369	-439	-509	-579	-649
Reserves (excluding Asset Revaluation Res)	-15	-15	-265	-515	-765	-1,015
Raw Accumulated surplus	3,642	941	965	1,039	1,137	1,196
Movement Between Financial Years	(1,344)	(4,045)	24	73	98	60
Less Operational carryovers not included in unearned income						
Less Forward payment of the VGC grant (if not reserved)						
Less Capital works to be carried forward to the next period						
Net Surplus/ (Deficit) Position	3,642	941	965	1,039	1,137	1,196

Some notable features in the above outcomes are:

- The difference between the budgeted 2025/26 result and the forecast result is that the latter assumes that the Victorian Grants Commission will cease the advanced payment made in 2024/25. This is further discussed in section 6.7 of this report.
- The future years in this model beyond the current budget are based on the new model outcomes which are more comprehensive than what was done for the 2025/26 budget document. These years will therefore be different to what was included in the original budget document.
- Funding for capital works has been reduced from 2026-27 and in the subsequent financial years to achieve a balanced cash result. This is further discussed in section 6.2
- From 2026/27 onwards, there has been the inclusion of an annual transfer to Council reserves of \$250,000. The background behind this proposed reserve transfer is outlined in section 6.4
- With the balanced cash budget approach in place, Council maintains a raw accumulated surplus of just over \$1M across the life of the plan which also ensures that its liquidity ratios remain stable.

In summary, the future financial model for Yarriambiack Shire Council has been prepared on what

is financially affordable and sustainable using capital funding as the balancing item to achieve this outcome. This does however have implications for the Council's ability to adequately maintain and renew its existing assets, much less any changing and new community needs in the future.

6. KEY FINANCIAL CHALLENGES FOR THE COUNCIL MOVING FORWARD

Based on the previous review of the Council's financial position and current approaches, the following strategic directions for the Council are discussed.

6.1. YARRIAMBIACK SHIRE COUNCIL'S TEN-YEAR FINANCIAL PLAN

The initial scope of this review by LGeX was to analyse the current long-term financial model in place at Yarriambiack Shire Council and to form a view on its validity.

This was not possible for a range of reasons including:

- The model was too broadly based to be accurate
- The assumptions in the model were too high-level and manual changes that were made were not documented.
- The future financial outcomes as a result were over-stating the likely financial position.
- There were several balancing issues with the future projected balance sheet.

None of these comments should be read as being at all critical of the financial management of Council. The modelling tool available was simply not sufficient to allow the proper forecasting of future years.

In discussion with the Council, it was determined to put in place a more robust financial modelling tool and LGeX has worked in partnership with Council and the developer to establish a new model (noting that most of this work was performed by Council's Chief Financial Officer)

The model is still in its early stages and is far from fully mature at this point. More work is required to accurately forecast items such right of use assets and the associated lease liabilities. These do not however materially impact the future forecasts.

There is now confidence that the forward projections in the model reasonably present the future financial outlook of the Council based on the known financial environment at present.

Moving forward there are two key areas in which the model can improve.

Firstly, the model is currently a finance driven model. The future operating budgets are largely based on assumptions that have only been driven by the financial arm of the Council and have not been tested by the relevant budget managers who deliver the services. To improve the model further, the assumption driven outcomes need to be reviewed by each service area, particularly over the next four years, and where needed more detailed changes made.

The second key area of improvement is the linkage between this model and the asset management plan. Currently the two areas are working largely in isolation to each other with the asset management plan assuming much higher levels of capital funding than will be possible moving forward. This is further discussed in Section 6.3.

The outcomes in the model will now be used as the basis for the ten-year financial plan to be adopted by the Council prior to the 31 October 2025 as required by the Local Government Act 2020.

In summary, the key takeaways from the model are:

- The model has been prepared based on a balanced cash budget approach.
- This has only been possible due to reductions in capital funding which will impact on the Council's ability to meet its asset renewal requirements.
- Council's liquidity during the ten-years is maintained and improved.
- The model includes changes to Council's approach to Reserve funds which are discussed in the next section.
- In the longer term, for the Council to be sustainable and meet its ongoing operational and asset renewal needs, it will need more income either from increased government funding or by way of Council increasing its own income including potentially rate increases above the rate cap.

6.2. FUTURE FUNDING FOR CAPITAL WORKS

As previously noted in this report, the future financial model has been based on a balanced cash budget ensuring that the Council's financial position remains stable and secure. Funding for capital works has essentially been the balancing item to achieve this, and this has meant a reduction in the funds available for future capital works.

The below table summarises the available funds for capital works in future years.

Yarriambiack Shire								
STATEMENT OF CAPITAL WORKS								
For the year ended 30 June								
	Actual 2024 \$'000	Actual 2025 \$'000	Budget 2026 \$'000	Forecast 2026 \$'000	Budget 2027 \$'000	Budget 2028 \$'000	Budget 2029 \$'000	Budget 2030 \$'000
Property								
Land	69	0	0	0	0	0	0	0
Total land	69	0	0	0	0	0	0	0
Buildings	3,542	2,378	340	340	200	200	200	200
Heritage Buildings	15	0	0	0	0	0	0	0
Total buildings	3,542	2,378	340	340	200	200	200	200
Total property	3,611	2,378	340	340	200	200	200	200
Plant and Equipment								
Plant, machinery and equipment	1,606	1,251	1,295	1,295	1,000	1,000	1,000	1,000
Fixtures, fittings and furniture	46	8	0	0	0	0	0	0
Computers and telecommunications	0	52	60	60	60	60	60	60
Library Collection	21	21	20	20	20	20	20	20
Total plant and equipment	1,673	1,332	1,375	1,375	1,080	1,080	1,080	1,080
Infrastructure								
Roads	4,842	4,004	5,654	4,654	4,131	4,114	3,800	4,189
Bridges	0	0	0	0	0	0	0	0
Footpaths and cycleways	302	491	271	271	279	287	296	305
Drainage	0	0	76	76	78	80	83	85
Recreational, leisure and community facilities	0	176	1,451	1,451	100	100	100	100
Parks, open space and streetscapes	16	90	0	0	0	0	0	0
Waste Management	0	49	0	0	100	100	100	100
Aerodromes	0	0	0	0	0	0	0	0
Kerb & Channel	0	0	384	384	197	203	209	215
Total infrastructure	5,160	4,811	7,835	6,835	4,885	4,885	4,588	4,994
Total capital works expenditure	10,444	8,521	9,550	8,550	6,165	6,165	5,868	6,274

The table shows there is a significant decrease in projected funding for capital works with the drop-off being most significant in the building asset group and in later years in the model against recreational, leisure and community facilities.

It should be noted that the allocation between asset categories has been completed by the Finance area of the Council, and this would benefit from more discussion with asset managers. The current allocations do however look reasonable.

The below table highlights that the projected fall in capital is mainly felt in expenditure on new assets and asset upgrades. Asset renewal does initially fall and is then returned to current levels in 2026/27.

Yarriambiack Shire								
STATEMENT OF CAPITAL WORKS								
For the year ended 30 June								
	Actual 2024 \$'000	Actual 2025 \$'000	Budget 2026 \$'000	Forecast 2026 \$'000	Budget 2027 \$'000	Budget 2028 \$'000	Budget 2029 \$'000	Budget 2030 \$'000
Represented by:								
New asset expenditure	2,405	2,598	787	787	270	270	270	270
Asset renewal expenditure	7,868	5,746	5,535	4,535	5,895	5,895	5,598	6,004
Asset upgrade expenditure	186	176	3,228	3,228	0	0	0	0
Asset expansion expenditure	0	0	0	0	0	0	0	0
Total capital works expenditure	10,459	8,521	9,550	8,550	6,165	6,165	5,868	6,274

In terms of how funds for capital works are sourced, the fall in total capital works funding comes from two areas. The main cause in the reduction is the forecast budget for capital grants which is largely due to the uncertainty of these grants. Should the Council be successful in obtaining a higher level of capital grant funding (without the need to find unbudgeted matching funding), this will improve these outcomes.

The second and probably more significant is the fall in funding of capital from operations. The forecast funding in 2025/26 has reduced for the Council budget to remain in a surplus accumulated

cash position to a low of \$3.1M. This increases to approximately \$4M per year thereafter but funds for capital remains relatively stagnant despite rates increasing over this time. This indicates that rate increases are being fully absorbed by the projected increases in operational costs and are not contributing to an increase in capital funds.

Yarriambiack Shire								
STATEMENT OF CAPITAL WORKS								
For the year ended 30 June								
	Actual 2024 \$'000	Actual 2025 \$'000	Budget 2026 \$'000	Forecast 2026 \$'000	Budget 2027 \$'000	Budget 2028 \$'000	Budget 2029 \$'000	Budget 2030 \$'000
<i>Funding sources represented by:</i>								
Grants	5,623	2,477	5,338	5,338	2,100	2,100	2,100	2,100
Contributions	153	163	45	45	0	0	0	0
Council cash	4,203	5,881	4,168	3,168	4,065	4,065	3,768	4,174
Borrowings	480	0	0	0	0	0	0	0
Total capital works expenditure	10,459	8,521	9,550	8,550	6,165	6,165	5,868	6,274

What this level of capital funding means for the Council is discussed in the following section.

6.3. ASSET MANAGEMENT IMPLICATIONS OF THE CURRENT MODEL

As part of the work completed to prepare this report, a high-level review has been completed on the Asset Management Plan that the Council currently has out for community input. The Asset Management Plan is required to be adopted by Council prior to 31 October 2025.

Due to time constraints, the draft Asset Management Plan had to be prepared in advance of the revised financial model being established and consequently there are some misalignments between the two modelled outcomes. This is quite understandable given the timing of the two plans but should be addressed once the legislative deadlines have been met.

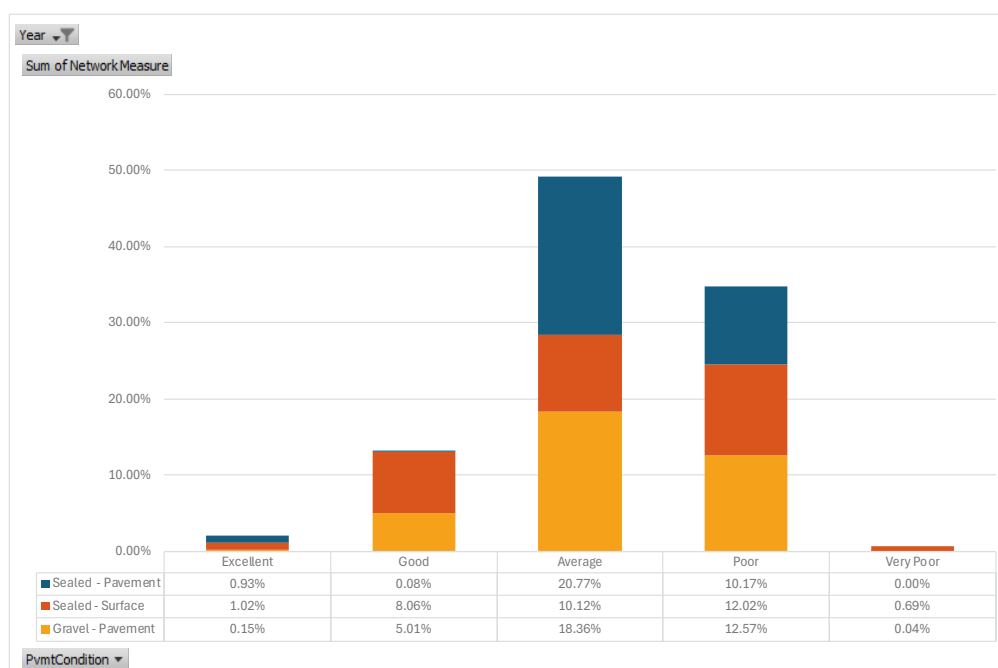
The Asset Management Plan discusses the renewal gap as the gap between annual expenditures on asset renewal and annual depreciation. Whilst this ratio is commonly applied to reflect whether the level of spending on asset renewal is sufficient, the asset renewal gap needs to be further assessed.

From a financial management perspective, depreciation on infrastructure assets is applied in a straight line. It assumes that from the start of their useful lives, an equal amount of the asset is consumed in each year.

The reality is however quite different. Assets deteriorate very little in their early years, but this rate of deterioration increases rapidly as the assets age.

The current condition of the assets is therefore very important in assessing the accumulated asset renewal gap as compared to an annual amount.

The Asset Management Plan provides an excellent overview of the current condition ratings of each major asset grouping. The condition rating of its most major asset (roads) provides the most concerning result as show below.



The reality is that based on the above graph, the Council would have to spending more than annual depreciation on roads to avoid the road network deteriorating further.

The below table highlights the proposed spending on asset renewal and asset upgrade in the financial model compared to annual depreciation charges.

Yarriambiack Shire								
STATEMENT OF CAPITAL WORKS								
For the year ended 30 June								
	Actual	Actual	Budget	Forecast	Budget	Budget	Budget	Budget
	2024	2025	2026	2026	2027	2028	2029	2030
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Represented by:</i>								
Asset renewal expenditure	7,868	5,746	5,535	4,535	5,895	5,895	5,598	6,004
Asset upgrade expenditure	186	176	3,228	3,228	0	0	0	0
Total asset renewal and upgrade expenditure	8,054	5,923	8,763	7,763	5,895	5,895	5,598	6,004
Annual Depreciation	5,369	8,999	7,822	7,822	8,351	8,493	8,631	8,770
Asset Renewal %	150%	66%	112%	99%	71%	69%	65%	68%

It should be noted that the future depreciation forecasts are currently based on the budgeted figure for 2025/26 and indexed from that point. The outcomes of the 2024/25 audited financial statements have significantly increased the depreciation charges above this amount and the model most likely understates annual depreciation in future years.

Even despite this, the annual renewal gap sits at around 70% of the required annual funding level. (Note the asset management plan assumed an average of 86%.)

To better understand the implications of this level of capital funding for asset renewal and upgrade, the Council will need to undertake future modelling of asset conditions based on this level of funding being available.

6.4. RESERVE FUNDS

Reserves are essentially the Council's way of allocating its accumulated cash surplus into areas for future spending. They give readers of the Council's annual financial statements insight into how the Council is likely to expend these cash balances.

Reserve funds are not held in separate bank accounts. They form part of the Council's overall cash balances. However, it is important to note that Reserve funds must be cash-backed. Some Victorian Councils have Reserve funds that are simply book entries, and those Councils could not afford to spend the Reserve amounts. This is not the case at Yarriambiack Shire Council, where the funds are backed by cash.

Reserve funds are split into two different types. The first is Statutory Reserves, where the Council collects funding from developers for a future purpose. The council must spend these Reserves in accordance with these legislative requirements.

The second type of reserve fund is discretionary Reserves. The Council nominates the purpose of the Reserve and the intended future expenditure, but it can use these funds for other purposes at any point.

What should Reserve funds be used for?

Reserve funds are very important in the Council's financial strategic direction. First, they provide a very important funding source for future Council infrastructure, taking the pressure off the Council to fund capital projects from a single-year rate income fully. Second, they lessen the need to borrow funds, although this comment needs to be read in conjunction with the later views in this review expressed on the potential for the Council to use debt funding from an equity perspective.

Reserve funds also provide an important source of contingent funding for the Council in the event of a significant and unforeseen event (e.g., COVID-19 impacts, superannuation liabilities). They act to 'de-risk' the Council from these events.

The use of Reserve funds should be strategic in nature. The Victorian Auditor General has in the past been highly critical of the over-use of Reserve funds by Councils that established numerous Reserves for minor purposes. VAGO likened the approach to the Councils setting aside funds in 'jam jars'. The Council should have relatively few Reserves with significant strategic value and roles.

What should Reserves not be used for?

Reserve funds must be established with future use and expenditure in mind. They should not be seen as a way for the Council to store cash with no intention of using it (other than comments made under the future strategic direction for Reserves below regarding setting a policy position on the minimum Reserve balance for the Council for contingent funding purposes).

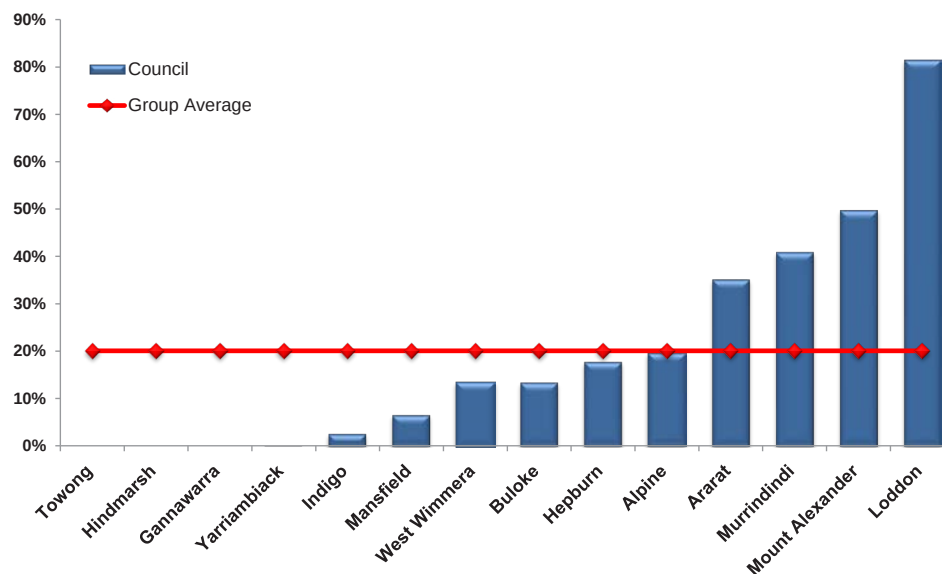
Discretionary Reserves should also not be established to artificially quarantine funds and block the Council from considering other uses for those funds.

Reserve funds should also not be used as an excuse for the Council's inability to properly prepare and maintain four-year budgets that consider the need for certain areas to rise and fall over the four-year period.

What is the current position regarding reserve funds at Yarriambiack Shire Council?

The use of reserve funds at Yarriambiack Shire Council is virtually non-existent with the Council holding just one reserve fund which has \$15,000 for Aerodrome maintenance in it.

**Total Reserve Funds Held / Total Revenue
2023-24 Small Rural Councils**



Having a reserve fund for aerodrome maintenance serves little purpose. Maintenance budgets should be simply managed through the Council operational budget and not through a reserve fund. Having only \$15,000 in this Reserve with no future projections to apply these funds has no value.

What future application of Reserve funds is recommended?

Having no Reserve funds and/or a substantial accumulated cash surplus also means having no contingent financial funding for any adverse financial outcomes. Yarriambiack Shire Council would benefit from establishing a reserve fund that would both serve as a source of capital funding for future new asset/ asset upgrades and a contingency against adverse financial events such as natural disasters.

In the revised financial model, an allocation of \$250,000 per annum has been set aside to be transferred into Asset Capital Works Reserve fund. This transfer is applied from 2026/27 onwards in the plan.

Currently there are no transfers out of this reserve to fund capital projects but as the Council ten-year capital program matures, this should be considered further.

The fund is intended to fund or part-fund major new assets or upgrades. It is not intended to fund asset renewal works. Council should also consider a policy position where a minimum reserve balance (e.g. \$500k or \$1.0M) is set as contingent funding only to be used where necessary and then for the Reserve to be brought back to this minimum balance as soon as possible.

Having access to these funds is an important element of the financial management of Council. The forecast growth in this Reserve significantly improves the liquidity of the Council over the financial plan.

A second Reserve fund that Council should consider establishing is the for the future costs of waste. Section 6.4 highlights the current deficit position of the Council in terms of fully recovering the cost of waste. Council should address this deficit outcome and even plan for a residual surplus to be transferred to a newly established Waste Reserve for future waste capital.

Finally, this model has been built on the assumption that the Federal Government (via the State Grants Commission) will discontinue the current advanced payment of 50% that was made in late June 2025. Council is now forecasting that it will only receive the final 50% in this current (2025/26) financial year. If the government does decide to continue the advanced payment, Council should consider placing the advanced payment in a dedicated reserve fund.

6.5. COUNCIL'S USE OF DEBT FUNDING

Yarriambiack Shire Council has not actively used debt funding as a source of capital works funding other than its most recent borrowing in 2023/24 to part fund a social housing project.

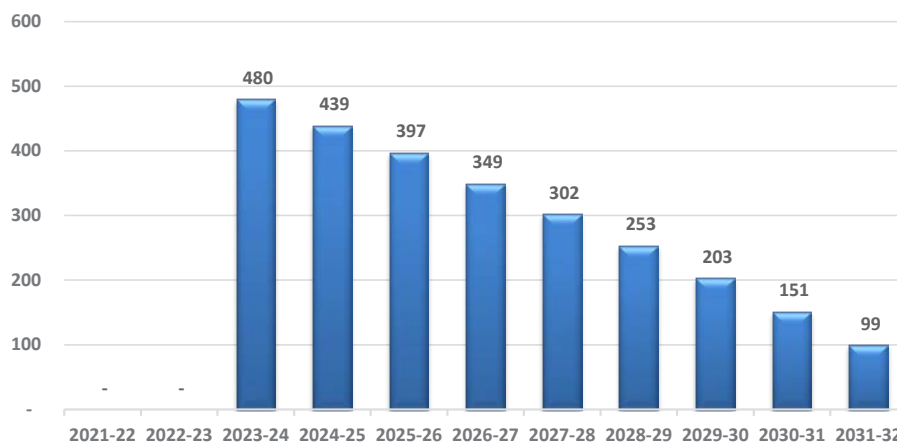
Debt funding plays an important role in matching the benefits received from an asset with the populations that will essentially pay for the asset.

When a Council borrows to fund a major capital development, the loan is repaid over future years, matching the populations that benefit from the asset with those that pay for it.

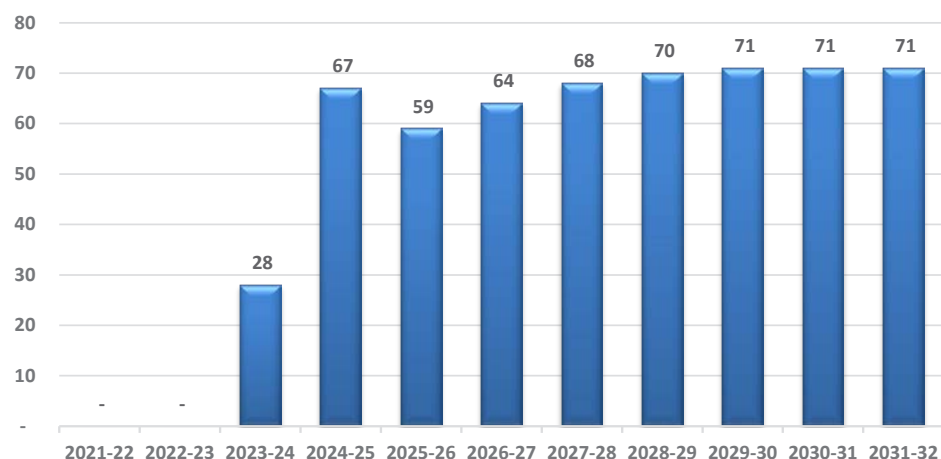
Debt funding is an important part of the funding mix for capital projects that many Councils neglect due to an aversion to borrowing. It is appropriate for long-term, major assets that will benefit the community over a 20–25-year lifespan. In a small rural Shire with several townships, it is important that if Yarriambiack is to use debt funding, it be for a project that has large significance and ideally beyond the boundaries of just that township.

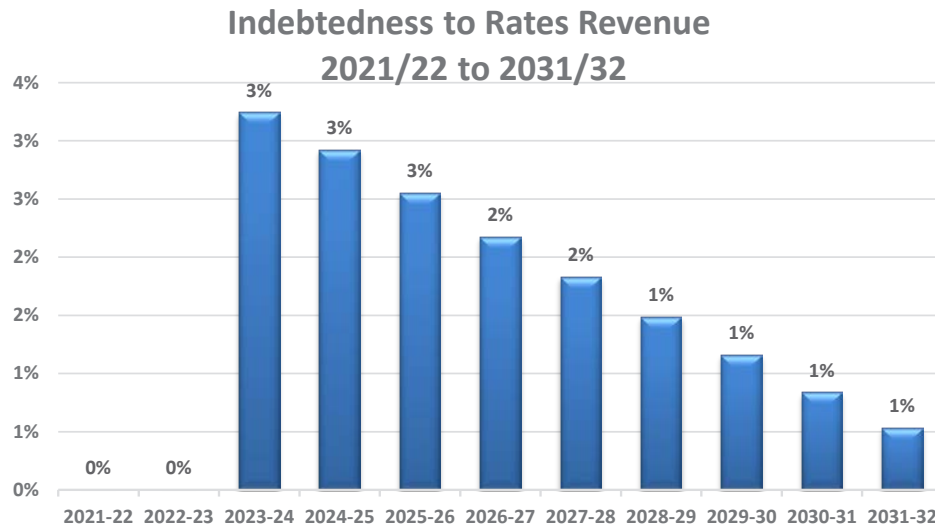
The following graphs highlight some perspectives on the use of debt funding at Yarriambiack Shire Council.

Loan Balances 2021/22 to 2031/32



Debt Commitment 2021/22 to 2031/32





The graphs highlight several points:

- The Council's level of indebtedness is extremely low. Like most Small Rural Councils, Yarriambiack has been quite debt averse.
- Should the Council have a project of regional significance in its future capital works program, debt funding should certainly be a consideration. Keep in mind that some Councils are approaching the 60% maximum indebtedness to rates ratio, Yarriambiack is currently sitting at 3%.
- The use of debt even though it is the most equitable way of funding long-term legacy assets, does need to be considered with a view to the impact of future repayments which do reduce the annual amount available to capital expenditure in those years.

6.6. WASTE CHARGES

Most Victorian Councils levy a Waste Service Charge that is based on the cost recovery of waste services.

Yarriambiack Shire Council is in the minority where its current waste service charge does not fully recover the cost of these services, and the Council has been progressively moving to a model of full cost recovery.

The table below highlights the movement in the waste revenue over the past five years

Waste Revenue	\$'000s	% Inc
2021/22	1,239	
2022/23	1,274	3%
2023/24	1,617	27%
2024/25	1,785	10%
2025/26	2,038	14%

NB Figures sourced from Annual Financial Statements

The importance of reaching a fully recovered waste charge cannot be understated given the overall financial position of the Council and the fact that these increases sit outside the rate cap parameters and are within the control of the Council.

As a separate project, Council is reviewing the model of how it delivers waste services and in particular the cost of transfer stations to either reduce its overall costs or improve the effectiveness of this service. Until any cost savings are realised however, the Council should continue to pursue increases in waste charges until the point it reaches a break-even result.

The 2025/26 Annual Budget included a 10% increase in the waste charges applied which resulted in an overall forecast increase revenue of 14% on the actual result achieved in 2024/25.

This still however resulted in a considerable financial shortfall to Council which is being funded by rate revenue.

The following table highlights a shortfall in revenue of \$162,000 per annum with the greatest loss being occurred in the operation of transfer stations which accrue an annual loss of nearly \$400,000 per year.

Council modelled a range of scenarios in the preparation of its 2025/26 Annual Budget with an increase of 30% being required to reach break-even. The end outcome of a 10% increase pending an efficiency review on the delivery of the transfer station model looks to be a prudent outcome. Should however the community require the continuation of the current model then the Council should further increase waste charges to reach a break-even outcome.

Council should also consider the inclusion of corporate overheads in the calculation of the break-even outcome which is a practice adopted by many other Councils.

Revenue	Budget 2026 20% rate increase)	Forecast 2025	Actual 2024	Actual 2023	Actual 2022	Actual 2021
Recycling*	\$ 724,981.56	\$ 575,887.13	\$ 540,884.01	\$ 493,635.17	\$ 483,359.83	\$ 503,334.45
General Waste	\$ 1,202,245.26	\$ 993,152.25	\$ 900,485.86	\$ 830,392.84	\$ 804,731.65	\$ 780,117.08
Transfer Stations*	\$ 111,000.00	\$ 86,242.56	\$ 125,576.75	\$ 91,103.96	\$ 85,252.96	\$ 85,547.64
Glass	\$ -	\$ 263,023.88	\$ 241,525.54			
Total Revenue	\$ 2,038,226.82	\$ 1,918,305.82	\$ 1,808,472.16	\$ 1,415,131.97	\$ 1,373,344.44	\$ 1,368,999.17
Expenses						
Recycling	\$ 696,293.00	\$ 536,258.59	\$ 565,237.17	\$ 385,061.60	\$ 432,137.93	\$ 443,153.16
General Waste	\$ 951,138.17	\$ 964,508.00	\$ 982,483.16	\$ 754,580.59	\$ 807,848.92	\$ 678,642.50
Transfer Stations	\$ 509,271.00	\$ 533,044.74	\$ 539,335.17	\$ 322,774.13	\$ 405,518.15	\$ 409,283.58
Glass	\$ 43,528.83	\$ 42,261.00	\$ 48,472.00	\$ 84,000.00		
Total Expenses	\$ 2,200,231.00	\$ 2,076,072.33	\$ 2,135,527.50	\$ 1,546,416.32	\$ 1,645,505.00	\$ 1,531,079.24
shortfall	-\$ 162,004.18	-\$ 157,766.51	-\$ 327,055.34	-\$ 131,284.35	-\$ 272,160.56	-\$ 162,080.07
by Area						
Recycling	\$ 28,688.56	\$ 39,628.54	-\$ 24,353.16	\$ 108,573.57	\$ 51,221.90	\$ 60,181.29
General Waste	\$ 251,107.09	\$ 28,644.25	-\$ 81,997.30	\$ 75,812.25	-\$ 3,117.27	\$ 101,474.58
Transfer Stations	-\$ 398,271.00	-\$ 446,802.18	-\$ 413,758.42	-\$ 231,670.17	-\$ 320,265.19	-\$ 323,735.94
Glass	-\$ 43,528.83	\$ 220,762.88	\$ 193,053.54	-\$ 84,000.00	\$ -	\$ -
shortfall	-\$ 162,004.18	-\$ 157,766.51	-\$ 327,055.34	-\$ 131,284.35	-\$ 272,160.56	-\$ 162,080.07

The cost of delivering waste services continues to be quite dynamic. Once the Council reaches a position where it is budgeting for a break-even result, this area would benefit from the establishment of a Reserve fund where any surpluses or deficits can be funded into the future.

6.7. VICTORIAN GRANTS COMMISSION FUNDING

Accounting for Victorian Grants Commission funding for Victorian Councils has been problematic now for several years. The Federal Government initially commenced with advance paying the grant (paying an additional instalment in late June) by 25%, which then increased to 50% and then 100% in advance.

This process was halted in 2023/24 where the advance payment was fully discontinued which caused significant issues for those Councils that had assumed the advanced system would remain in place and had essentially spent the initial advanced funds. In this particular year, Councils received virtually zero Grants Commission funding.

The situation returned to normal funding in 2024/25 but again in very late June, the Federal Government advanced to the Victorian Grants Commission 50% of the funding amount.

This has resulted in Council's reporting higher surplus outcomes and increased cash holdings on 30 June 2025.

Councils cannot assume however given history that this amount will remain in place and need to ensure that they account for the advanced payment in a manner that if it discontinues, they have planned for this result.

The 2025/26 original budget for Yarriambiack Shire Council has assumed 100% of the Victorian Grants Commission grant will be received and given the budget was in place prior to the last-minute advanced payment this is to be expected.

To account for the potential discontinuation of the advanced payment, the 2025/26 forecast result has been reduced to 50% of the grant (with the remaining 50% having been received in June 2025 prior to the start of the new financial year).

This ensures that Council is basing its forecast result on the conservative outcome and not pre-empting the continuation of the advanced payment.

If an advanced payment is received, the Council should consider moving the advanced payment into a newly established Reserve fund.

6.8. FUTURE FINANCIAL KEY PERFORMANCE INDICATORS

As distinct to Appendix 1 to this report that provides a more comprehensive look at a range of financial indicators, at a point in time being 30 June 2024, this section looks at three key indicators across the life of the financial model.

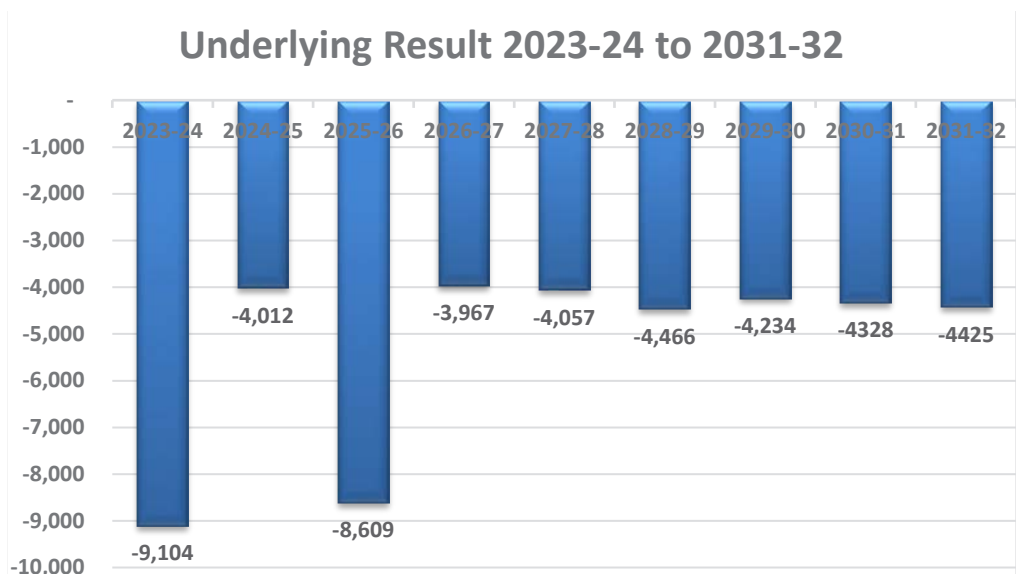
The first indicator below is the underlying operational result. This indicator shows the operational result excluding the impact of capital grants and developer contributions. The results for the first three periods are skewed by the variations in the Victorian Grants Commission grant (moving from no funding, then to 50% in advance and then for 2025/26 assuming only 50% funding).

The more relevant trend is the forecast result after this period from 2026/27 onwards. The results show a steady and declining result indicating that general operations, excluding capital funding and developer contributions, is gradually eroding the net assets of the Council.

This is not an ideal result but one faced by nearly all rural Councils in Victoria.

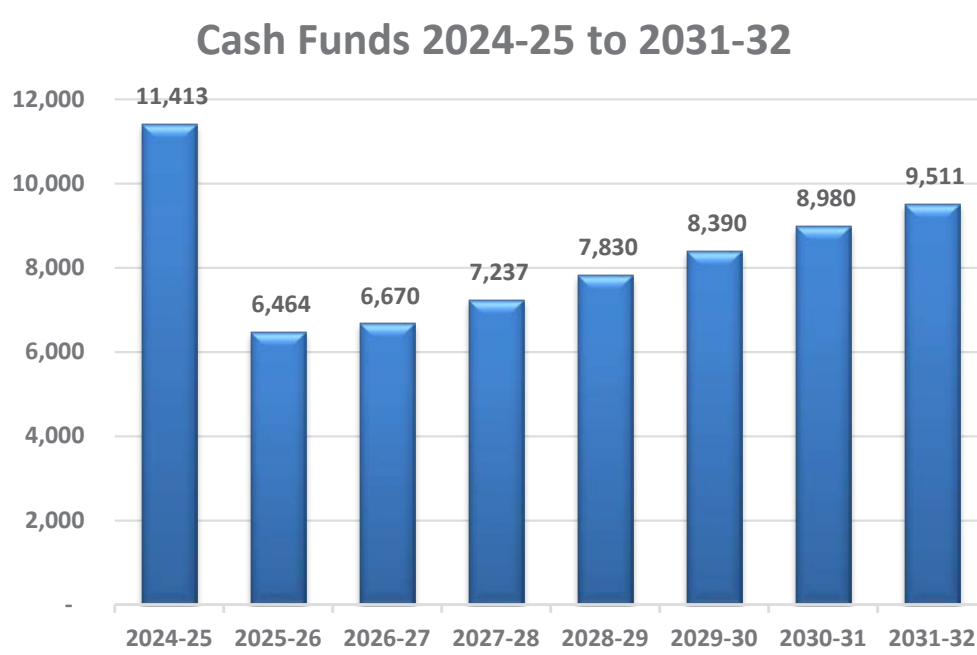
To remedy this outcome, the Council would need to increase its net revenues from Rates, Fees and Operational Grants by \$4M per annum or reduce operational costs or a mixture of both outcomes.

A move of this magnitude is however simply not possible without drastically impacting services to the community. (unless grant funding is greatly increased without any matching obligations)



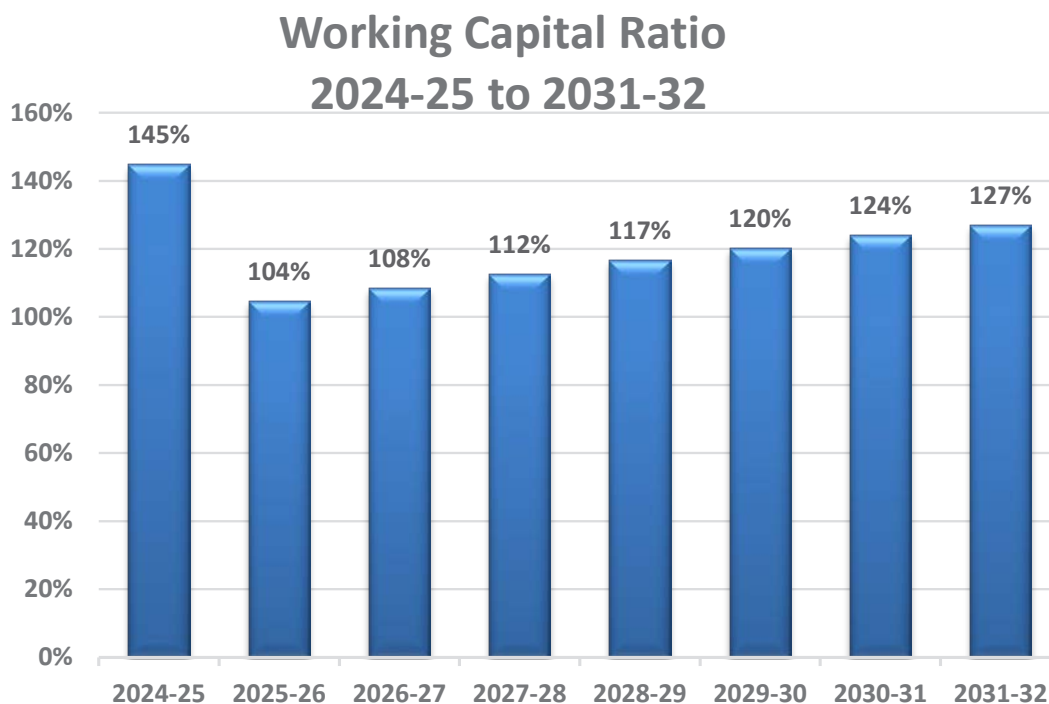
Cash funds in the model at 2024/25 are impacted by the advanced payment of 50% of the Victorian Grants Commission funding.

Without this in 2025/26, estimated cash holding reduce to \$6.5M on 30 June 2026. The result then slowly increases across the lifespan of the model, largely due to the assumption of placing \$250,000 per annum into the Strategic Assets Reserve fund.



The Council's estimated Working Capital Ratio follows a similar trend to the above with the initial result being impacted upon by the advanced paid Grants Commission funding. When the result returns to normal in 2025/26, the outcome is a quite tight result in 104%. The minimum acceptable outcome for the Council is 100% but this leaves the Council very light 'wriggle-room' if any adverse financial event occurs.

The inclusion of the Reserve fund gradually moves this dial into a safer territory over the lifespan of the financial model.



7. RATING AND RATE DIFFERENTIALS

7.1. RATE CAP

The financial model has been prepared on the assumption that future increases in the rate cap will average 2.5% per annum over the life of the model.

The model assumes that Council will remain within the rate cap, but this does come with the difficulties explained previously in this report.

Operational costs are estimated to rise higher than the rate cap as has been the case for most Councils across the past several years.

The reductions in available capital funds have been well discussed in this report. The Council as an outcome needs to fully understand the likely future implications on asset conditions based on this level of funding being available.

Once that result is known then the likely outcomes for the Council are as follows:

- Accept the outcome and remain at status quo
- Drive down operational costs and where possible increase other funding sources to increase funding available for capital
- Advocate for increased levels of operational and capital funding without any matching funding obligations.
- Review the potential for an application to increase rates above the rate cap.

Should the Council wish to consider this final option, the case study presented by Hepburn Shire Council in this current financial year, where they have successfully applied for a 10% increase in Council rates, should be closely considered.

The financial position presented in this report is such that an application to increase rates beyond the rate cap is quite likely to be supported by the Essential Services Commission.

7.2. RATING DIFFERENTIALS

Any increase in rates above the rate cap will no doubt generate discussions about various rating categories and the ability to pay additional rates.

The current differential rates in place at Council at present are shown below.

Differential	Rate in \$	Differential %
Residential	0.003029	
Commercial	0.003029	100%
Rural	0.001762	58%

Many other Councils levy a higher rate for commercial properties given the tax deductions available for Council rates.

Whilst this is possible for the Council to consider, there are only 436 commercial properties raising 2% of Council rates so any change to this rating category is cosmetic in terms of the impact on the other two categories.

Farm rates currently raise 83% of the overall rate amount. If there is an increase in Council rates over the rate cap, Council can increase the farm rate discount from its present 42% to soften the impact on farm rates. It would however be very difficult given this proportion to levy all increased rates above the cap on to the residential sector.

APPENDIX 1 - FINANCIAL HEALTH CHECK

Report Context

Conducting a financial health check on any council is complex and multi-layered. It needs to consider various factors including Yarriambiack Shire Council's comparative financial health to other councils.

This appendix provides a snapshot of the Council's current position and discusses its future direction across various indicators. It highlights the Council's relative financial strengths and areas of financial challenge.

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EXECUTIVE SUMMARY & OUTCOMES

1.1. REPORT METHODOLOGY AND APPROACH

In assessing financial health, three questions need to be addressed. These are:

- Is the assessment a measure of financial health as it exists today, or should it also consider the likely future financial health of the Council?
- Is the assessment based purely on the Council's financial health, or is it based on comparative financial health compared to neighbouring councils?
- What model will be used to assess financial health, given that no definitive framework is commonly applied in the industry?

This report addresses each of these issues through the following:

1. A detailed comparative financial key performance indicator framework has been applied using financial data drawn from each council's June 2024 financial report from a Small Rural Council benchmark group;
2. Contrasting the comparative framework, the Council's individual position on various indicators is discussed separately.

1.2. REPORT OUTCOMES

The report provides a detailed summary of the comparative financial health indicators' outcomes regarding Yarriambiack Shire Council's current and future positions (See page 23).

An easy and understandable way to portray an assessment of financial health is to use the same framework that banks have their credit rating assessed.

That being:

A+, A, A-, B+, B, B-, C+, C, C-

If a credit rating were to be applied to Yarriambiack Shire Council **as of the date of the comparative financial indicators (30 June 2024)**, the rating assessed would be in the **C to C+ range. It is important to note that this rating is not likely to be maintained based on the current future financial forecasts.**

The rating is based on the following observations.

- Comparatively Yarriambiack Shire Council is asset poor. This applies to both the level of infrastructure assets but more importantly realisable assets such as land, buildings and the level of cash holdings. This does come with a benefit of having a lower level of renewal requirements and annual depreciation charges compared to most other Councils but also means that Council is less able to realise assets to improve its financial outcomes.
- The level of cash funds held by the Council is low as a percentage of Total Revenue in comparison to other Councils. The cash balance of \$6.8M on 30 June 2024 decreased considerably in that financial year due to the non-receipt of the previously 100% advanced Victorian Grants Commission payment. The level of low cash funds is a concern should there be any adverse events that impact on the Council moving forward. The Council has no contingent funding it can utilise.
- Council's liquidity (Working Capital Ratio) is adequate at 134% but below most other Councils. This figure also includes the 50% advanced Victorian Grants Commission in 2024/25 and if this was removed, the ratio would be close to the minimum outcome of 100%. Council has very little scope to manage any adverse financial events in the future.
- On the back of a low level of depreciation and a high capital works effort in terms of asset renewal and upgrade, the Council performed strongly in 2023/24 in the ratio that measures renewal and upgrade expenditure compared to annual depreciation. This result is not maintained in 2024/25 however and in future years with both depreciation increasing substantially and capital works expenditure falling. Future projections in this ratio are based on an average outcome of 70% which is below what is required to adequately maintain the Councils existing assets.
- Council borrowed \$500,000 in 2023/24 and this is its only indebtedness. It therefore has scope for

future borrowings should they be required but this comes with the caveat that ongoing repayments of these borrowings would further reduce funds for annual capital. Borrowings are further discussed in the main report.

- Council has just \$15,000 in its only Reserve fund for aerodrome maintenance. This reserve is not strategic in nature and serves little purpose. Reserve funds are discussed more fully in the main report but used strategically they provide a valuable source of capital funding and a level of contingent funding in the event of adverse financial results.
- Council's overall revenue per assessment is lower than average of the back of rates per assessment which are on average, fee revenue which is well below average and slightly above average grant revenue. It is difficult to see how the Council will improve its fees outcome given the nature of the Council other than the potential for future partnerships with renewable energy projects.
- The Council is collecting its rate revenue slightly better than average which is a positive outcome. This outcome did however worsen in 2024/25 with a 22% increase in rate debtors.
- Off the back of lower revenues, the Council's expenditures per assessment are also lower than average. On a net basis looking at operating revenues less operating expenditures, Council is performing slightly better than average indicating that it is not operating inefficiently.
- Council has a service delivery model which is more heavily weighted to delivering services via Council employees rather than engaging external suppliers. This has the advantage of guaranteeing access to service providers but has some flexibility disadvantages and some potential higher risk with future wage growth.

2. OUR COMPARATIVE FINANCIAL HEALTH

2.1. UNDERSTANDING THE FRAMEWORK USED.

The approach taken to address financial health is like how an individual would address their own financial health.

This includes asking the following questions:

Balance Sheet

- What level of assets does the Council own/hold?
- What assets are 'realisable' compared to assets such as roads/parks/drains, etc.?
- What level of cash funds are held by the Council?
- What is our liquidity like – do we have enough short-term assets to cover our short-term liabilities?
- How well is the Council looking after its assets?
- How much does the Council owe in terms of loans?
- What are our debt ratios compared to others?
- What level of Reserve funds do we hold for future investment?

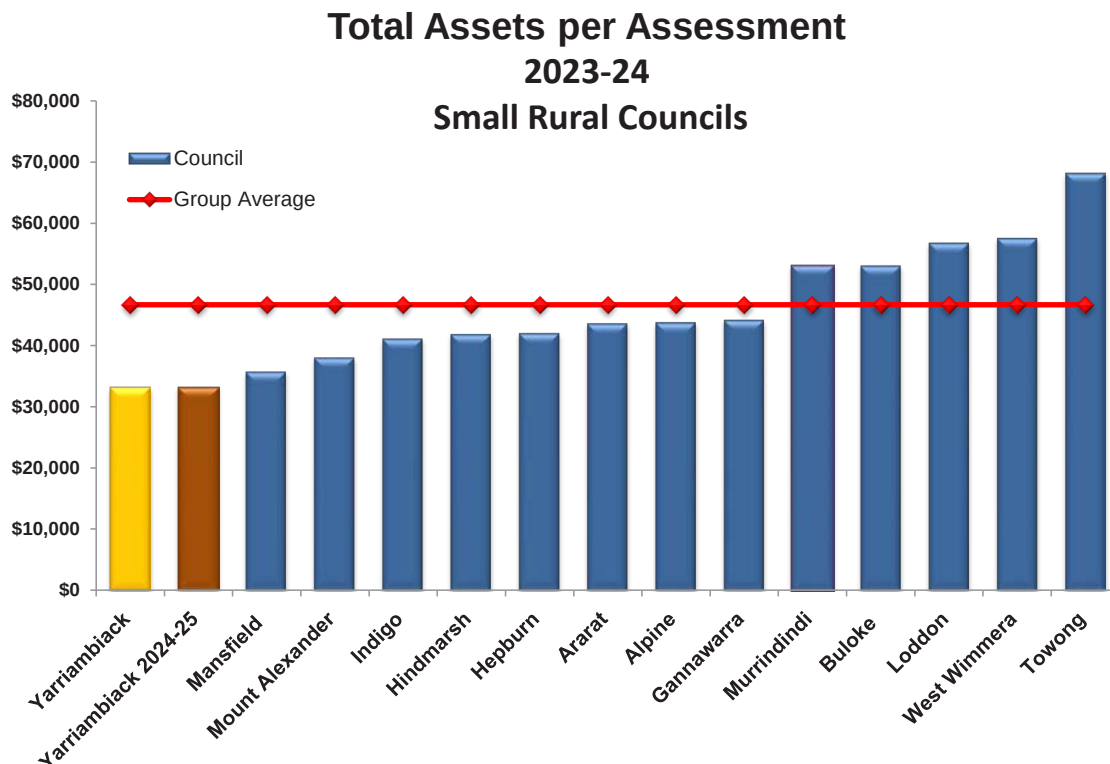
Income Statement

- What is our level of total operating revenue compared to others?
- What is our level of rates compared to others?
- Are our rates affordable?
- Are we able to collect our rates?
- How much do we receive in fees compared to others?
- What is our relative grant revenue?
- How much are we spending compared to others?
- Based on our revenue and expenditure, what operational surplus are we generating towards capital expenditure/debt redemption?
- How much of our expenses are tied up in employee costs?
- What is the balance of the expenses we use to purchase materials and services?

2.2. OUR COMPARATIVE FINANCIAL INDICATOR RESULTS

The following pages outline our comparative results for each of the above questions.

2.2.1. What level of assets does Council own/hold?



Analysis of outcome

This measure is based on the total assets the Council owns, including current and non-current assets. As highlighted in the graphic, Yarriambiack is comparatively asset poor compared to its benchmark group.

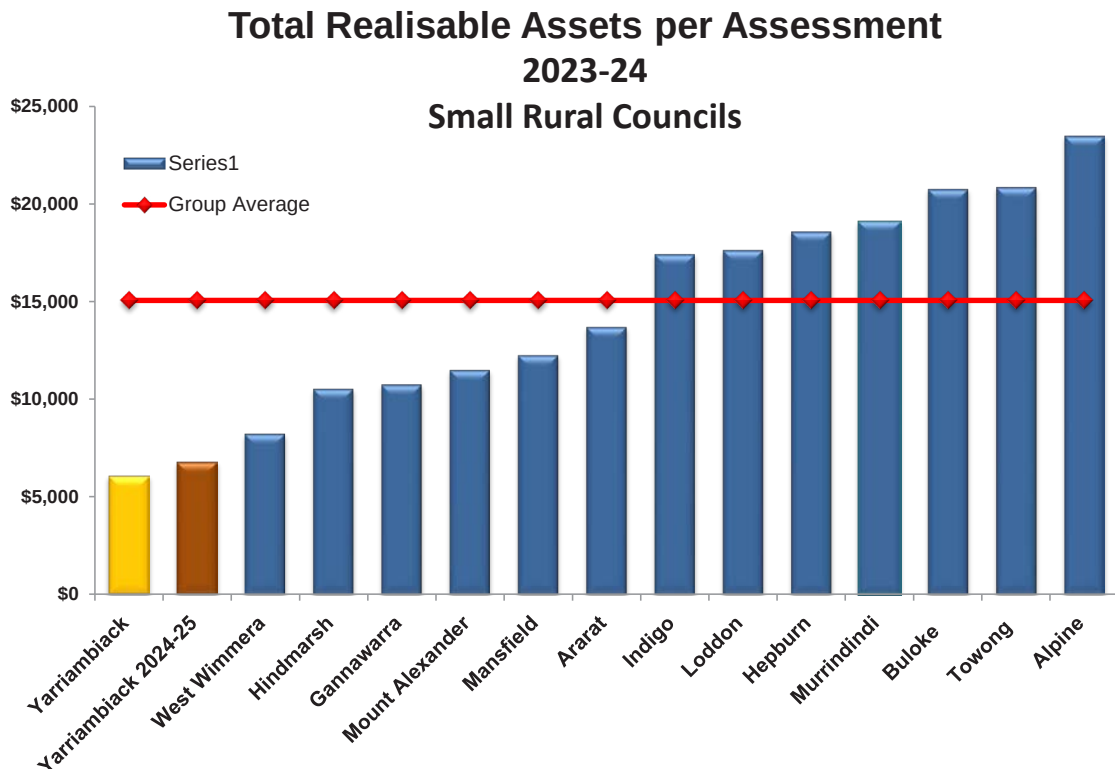
The vast majority of Yarriambiack's assets are infrastructure assets with the Council owning \$191M in this asset group. Council also owns \$17.5M in building assets and \$4M in land assets. In terms of building and land assets most of these are categorised as specialised in nature which means that they have no commercial purpose.

The Council also has relatively low current assets (cash) which is contributing to this result.

Both West Wimmera and Towong record higher levels of infrastructure assets despite being relatively smaller than Yarriambiack whilst Buloke and Loddon are also higher in this area with relatively the same number of rateable assessments as Yarriambiack.

The outcomes of this indicator need to be read in conjunction with the following indicator.

2.2.2. What assets are 'realisable'?



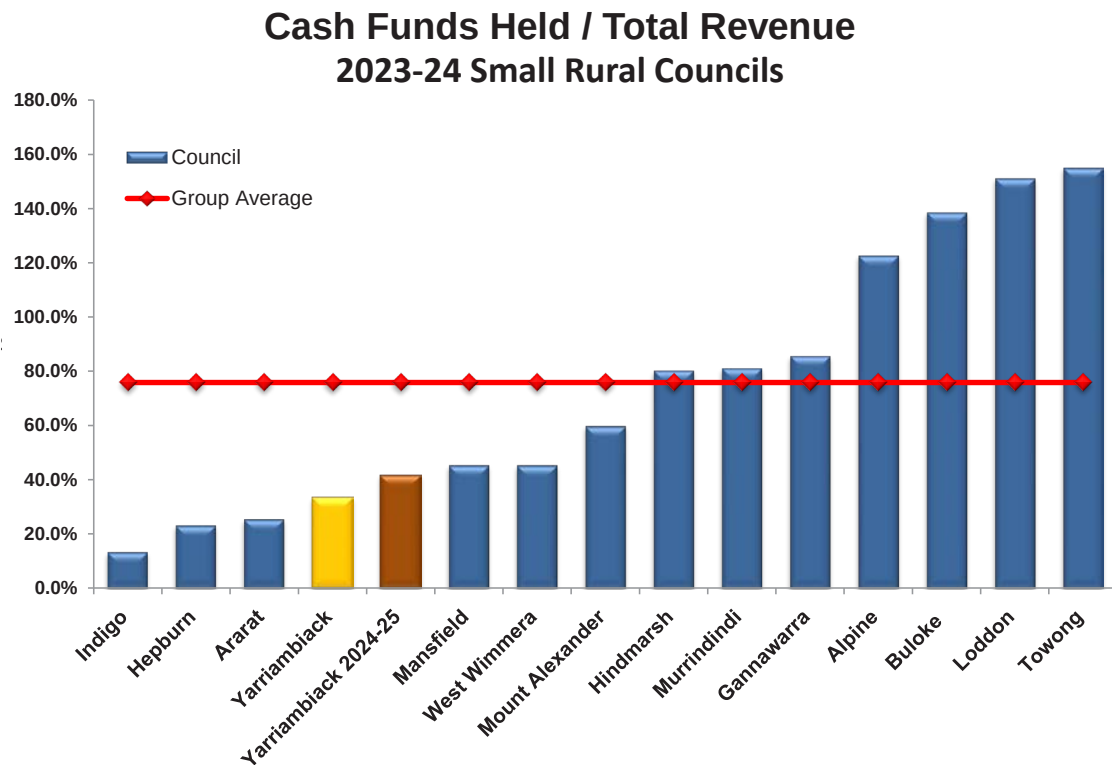
Analysis of outcome

This next ratio differs slightly from the previous one in that it removes the value of infrastructure assets and is, therefore, based only on the valuation of the remaining assets which includes cash at bank, land, buildings and plant and equipment.

The council again sits at the lowest in the group illustrating that its current asset balance and the value of land and buildings and plant that it holds is comparatively low. As noted in the previous indicator a high percentage of land and buildings were categorised as being specialised in nature, meaning that they are for local government purposes only and have no commercial market value.

The importance of these indicators highlight that the Council does not hold a high level of assets that it could realise to improve its financial outcomes.

2.2.3. What level of cash funds are held by Yarriambiack Shire Council?



Analysis of outcome

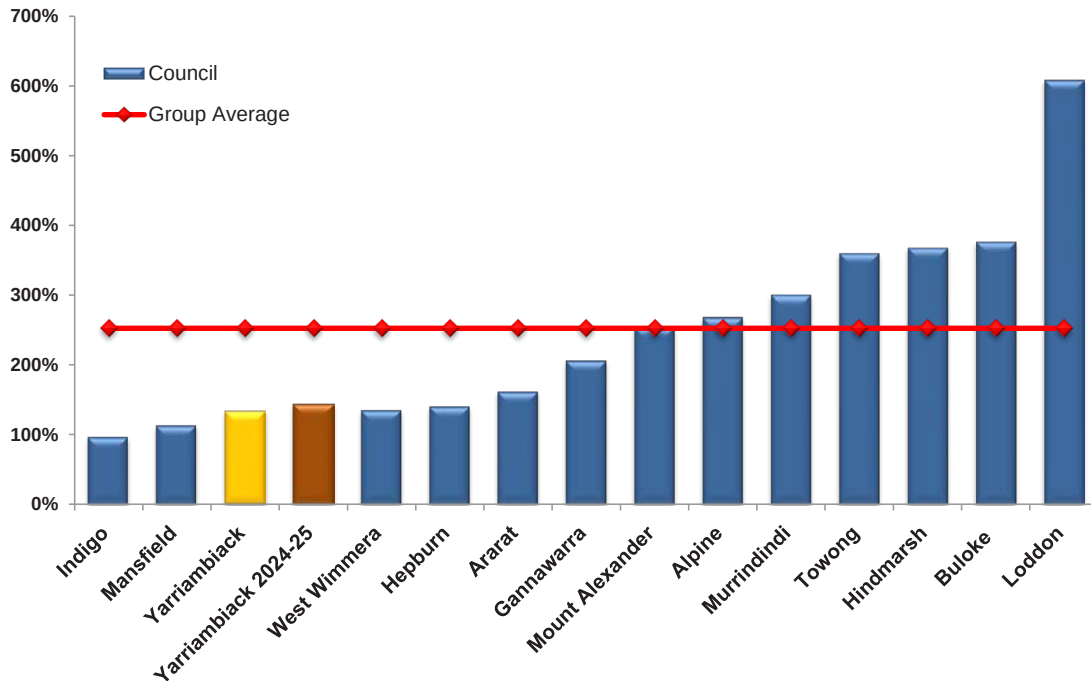
This ratio looks at the amount of cash assets that Yarriambiack Shire Council has in its balance sheet compared to its total operating revenue amount. It should be noted that Total Revenue excludes capital grants, developer contributions (monetary and non-monetary), any gain on the sale of assets, and other non-cash adjustments. For all measures in this report, Total Revenue also excludes the 50% advanced paid Victorian Grants Commission amount in the 2024/25 result.

Yarriambiack Shire Council's cash result is at the lower end of the group. On 30 June 2024, the Council held \$6.828M which was a decrease of \$10.3M on the previous year. All Councils in the group decreased cash holdings in this financial year due to not receiving any Grants Commission funding in this particular year.

The level of low cash funds is a concern should there be any adverse events that impact on the Council moving forward. The Council has no contingent funding it can utilise other than potentially borrowing funds which will impact on the Councils future ability to deliver capital works.

2.2.4. What is our liquidity like?

Current Assets / Current Liabilities 2023-24 Small Rural Councils



Analysis of outcome

This ratio represents the council's 'Working Capital Ratio', which measures how much its short-term assets can meet its short-term liabilities.

Most councils are generally very well placed in terms of this ratio. Hence, the average is extremely high at around 252 per cent (or \$2.52 of current assets for every \$1 of current liabilities). Any ratio above 150 per cent would be considered adequate.

Yarriambiack's ratio for this indicator is 134% which is sufficient but tight. As per the previous indicator there is little wriggle room should anything adverse event happen. The 134% outcome also includes a higher level of cash funds due to the advanced payment of the Victorian Grants Commission. If this was excluded for 2024/25, the result would be much tighter.

Some of the Councils with high results also have a high level of dedicated cash reserves and it is always important to view what their Working Capital Ratio would be if all these reserve funds were consumed.

Council	Current Assets	Current Liabilities	WCR	Reserve Funds	WCR without Reserves
Towong Shire Council	36,730	10,185	361%	0	361%
Hindmarsh Shire Council	14,454	3,922	369%	0	369%
Buloke Shire Council	35,813	9,500	377%	2,868	347%
Gannawarra Shire Council	26,286	12,695	207%	0	207%
Loddon Shire Council	37,453	6,147	609%	18,285	312%
Murrindindi Shire Council	36,684	12,174	301%	15,530	174%
Yarriambiack Shire Council	9,083	6,778	134%	15	134%
Alpine Shire Council	41,423	15,389	269%	6,043	230%
Mansfield Shire Council	17,223	15,144	114%	1,747	102%
Hepburn Shire Council	15,620	11,075	141%	6,004	87%
Indigo Shire Council	10,492	10,804	97%	803	90%
Mount Alexander Shire Council	29,741	11,656	255%	18,906	93%
Ararat Shire Council	11,732	7,228	162%	8,364	47%

Given that Yarriambiack only has the one cash reserve fund with \$15,000 in it, its performance is not

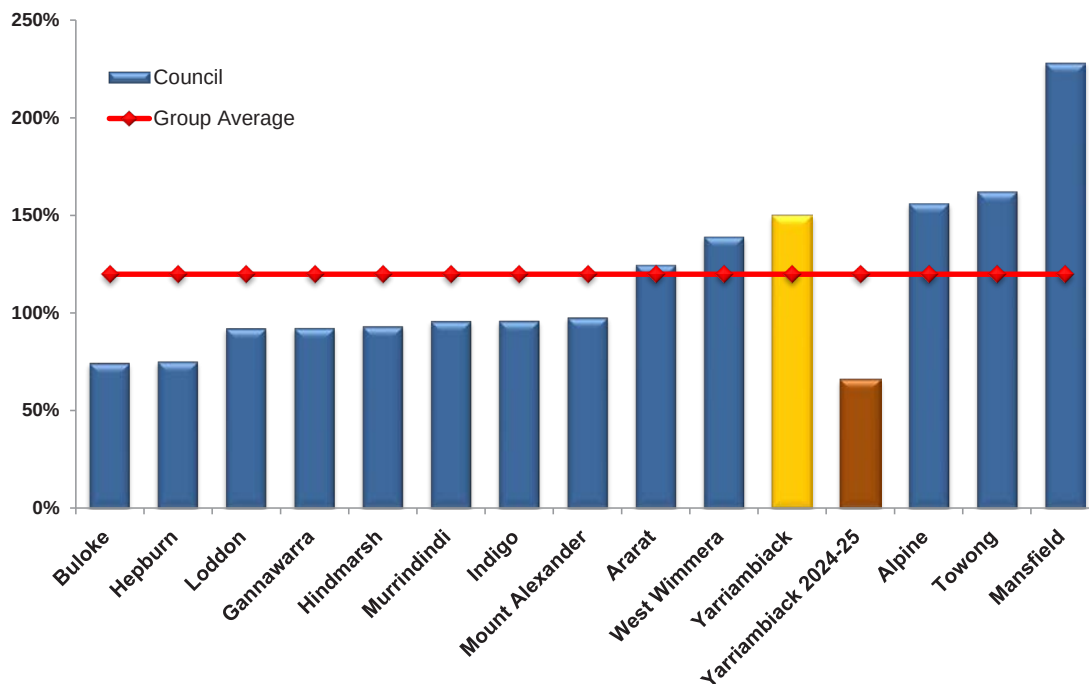
impacted by the removal of Reserve funds.

The results for Hepburn, Indigo, Mount Alexander and Ararat do indicate that whilst they are showing higher levels of Reserve funds, some of these funds are not supported by the cash held by the respective Councils.

The main report makes recommendations in respect of increasing the Reserve funds (and therefore cash and current asset levels) in future years.

2.2.5. How well is the Council looking after its assets?

Renewal & Upgrade Expenditure / Depreciation 2023-24 Small Rural Councils



Analysis of outcome

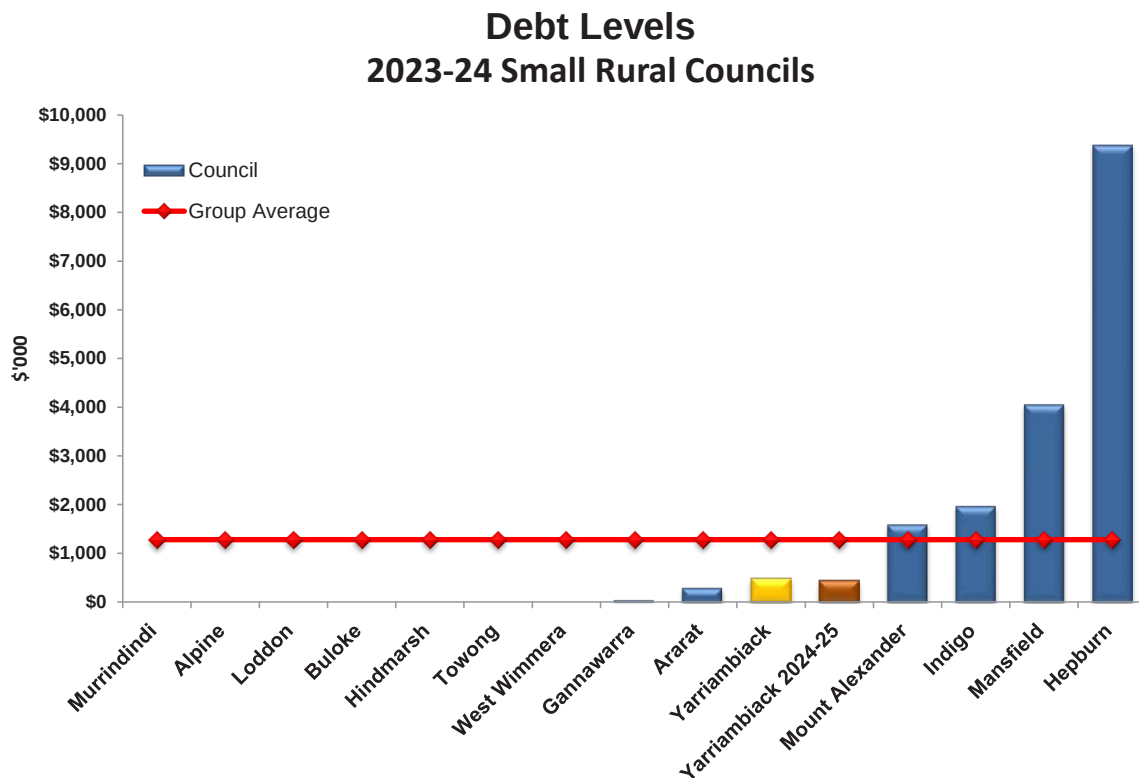
The ratio essentially tries to show whether the Council is spending enough funds to replace its current assets at a higher rate than the annual consumption (depreciation) on these assets. The ratio is far from a perfect guide as it takes no account of the current condition of assets and assumes that assets are consumed in a straight line over the asset's life. However, if viewed over an extended period, it is a reasonable guide to sustainability in terms of asset maintenance.

The ratio is also somewhat dependent on how accurate Councils are in splitting their capital works spending into the correct classification of asset renewal, upgrade and new assets.

Yarriambiack Shire Council in the 2023/24 result is currently well above the group average with an outcome of 150%. This result is however not continued in 2024/25 with a significant fall. This was due to depreciation costs rising from \$5.368M in 2023/24 to \$8.999M in 2024/25. Capital spending on asset renewal and upgrade also fell by \$2.072M.

The forward results in the financial model are also challenging in this ratio. Whilst the model has been prepared on what expenditures are financially sustainable, there are real concerns that this level of expenditure on asset renewal and upgrades will see further deterioration in asset conditions.

2.2.6. How much does the Council owe in terms of loans?



Analysis of outcome

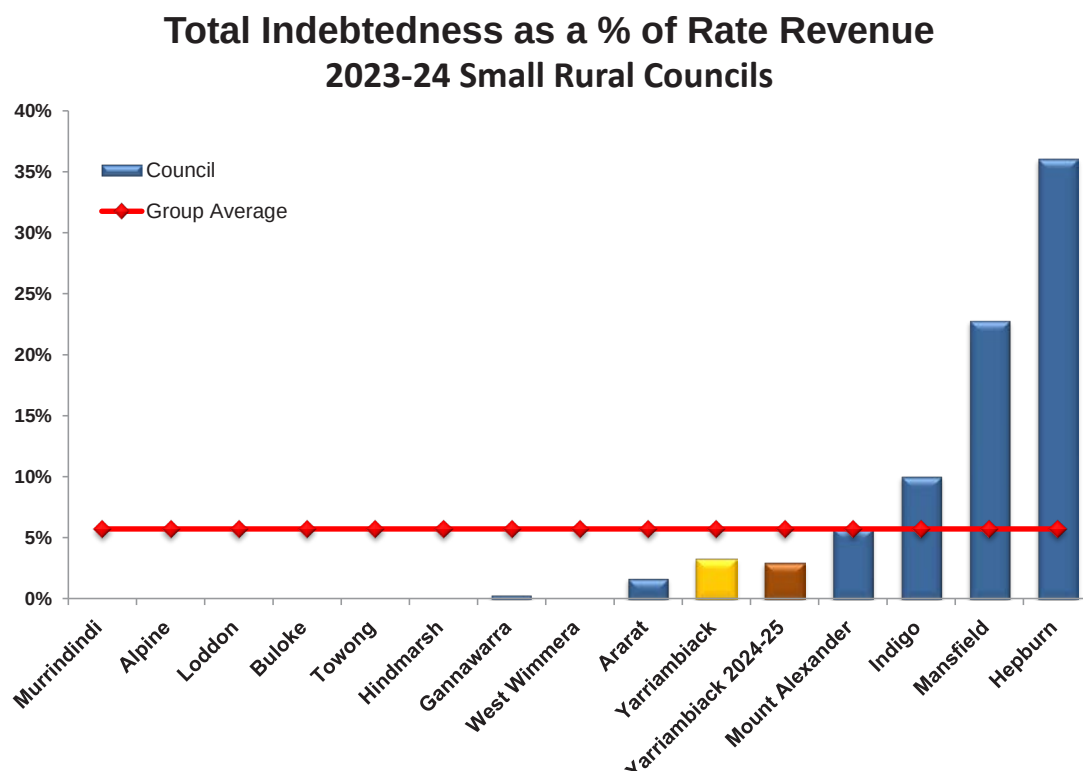
Whilst other performance indicators in this health check use a ratio approach that considers the relative sizes of councils, the above graph is based on pure dollars borrowed and is not scaled.

Local Government as an industry is relatively debt averse and the small rural benchmark group of Councils is strong evidence of this with seven Councils having zero debt, and three other Councils including Yarriambiack having minimal debt.

Yarriambiack borrowed \$500,000 in 2023/24.

The potential use/benefits of using debt funding are canvassed in the main report.

2.2.7. What are our debt ratios compared to others?



Analysis of outcome

This graph differs from the previous one in that it provides some scalability by contrasting the level of debt to each council's rate revenue. The outcomes show only seven Councils in the benchmark group with some amount of debt.

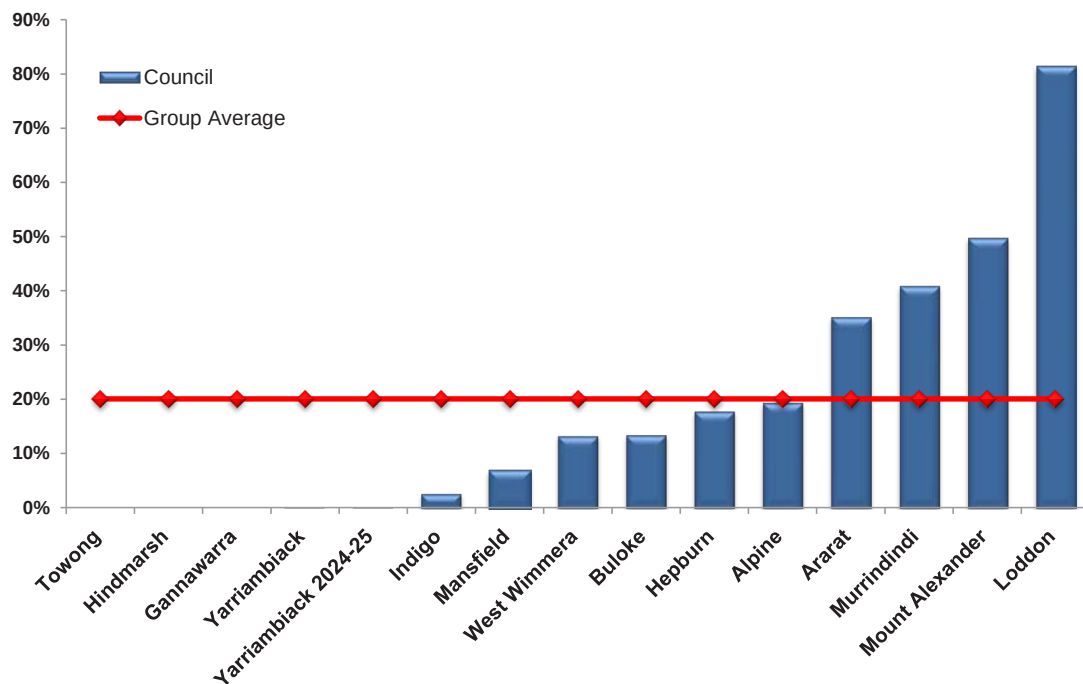
When it is considered that this ratio should ideally not exceed 60%, even those Councils with some debt remain well below this threshold.

The use of debt funding has some real equity advantages for projects that have a regional benefit rather than being specific to one location. Any loans do need to factor in the future repayment which then lessens the pool of funds available for capital expenditure in those future years.

Yarriambiack Shire Council, as shown, has minimal debt levels.

2.2.8. What level of reserve funds do we hold for future investment?

Total Reserve Funds Held / Total Revenue 2023-24 Small Rural Councils



Analysis of outcome

This indicator highlights the Council's cash reserves to fund future capital requirements.

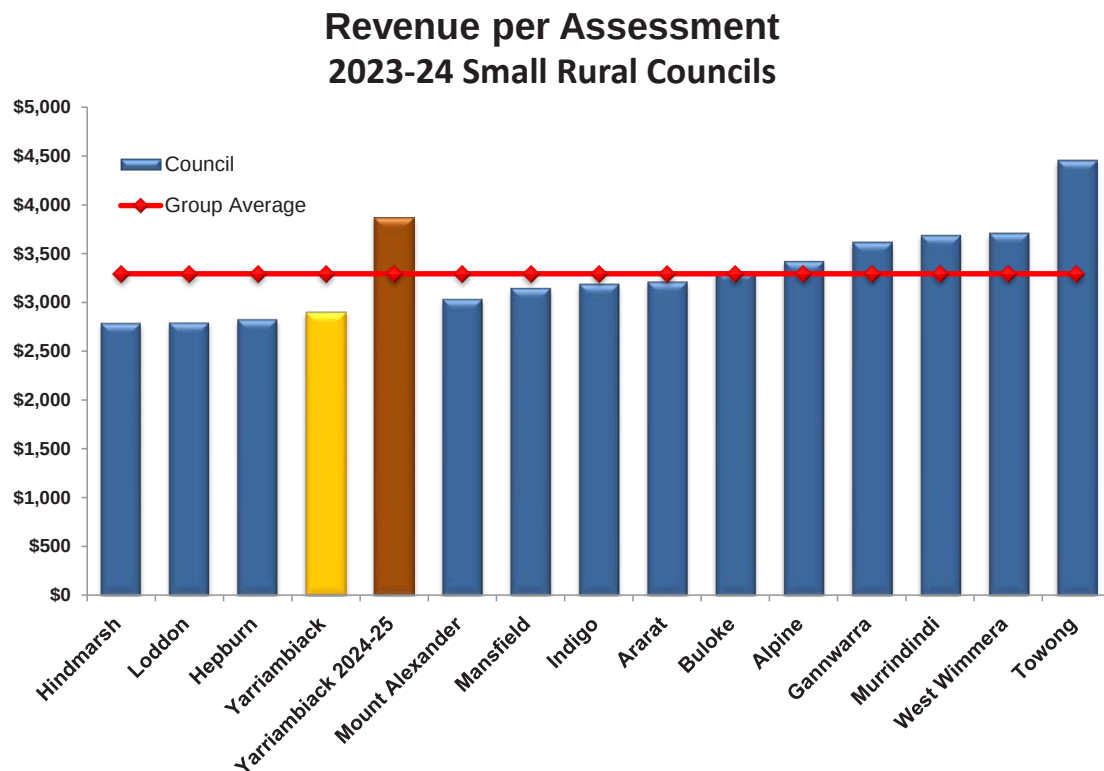
Reserves vary in nature from statutory (reserves which must be expended in accordance with how they have been raised) to discretionary (Council could essentially apply them for any purpose beyond their initial stated purpose).

On 30 June 2024, the Council held just \$15,000 in a Reserve fund for Aerodrome maintenance.

Reserve levels across the benchmark group are quite low except for four Councils.

The main report further discusses the use of Reserve funds moving forward. Used in a strategic fashion they offer Council a level of financial contingency.

2.2.9. What is our level of total operating revenue compared to others?



Analysis of outcome

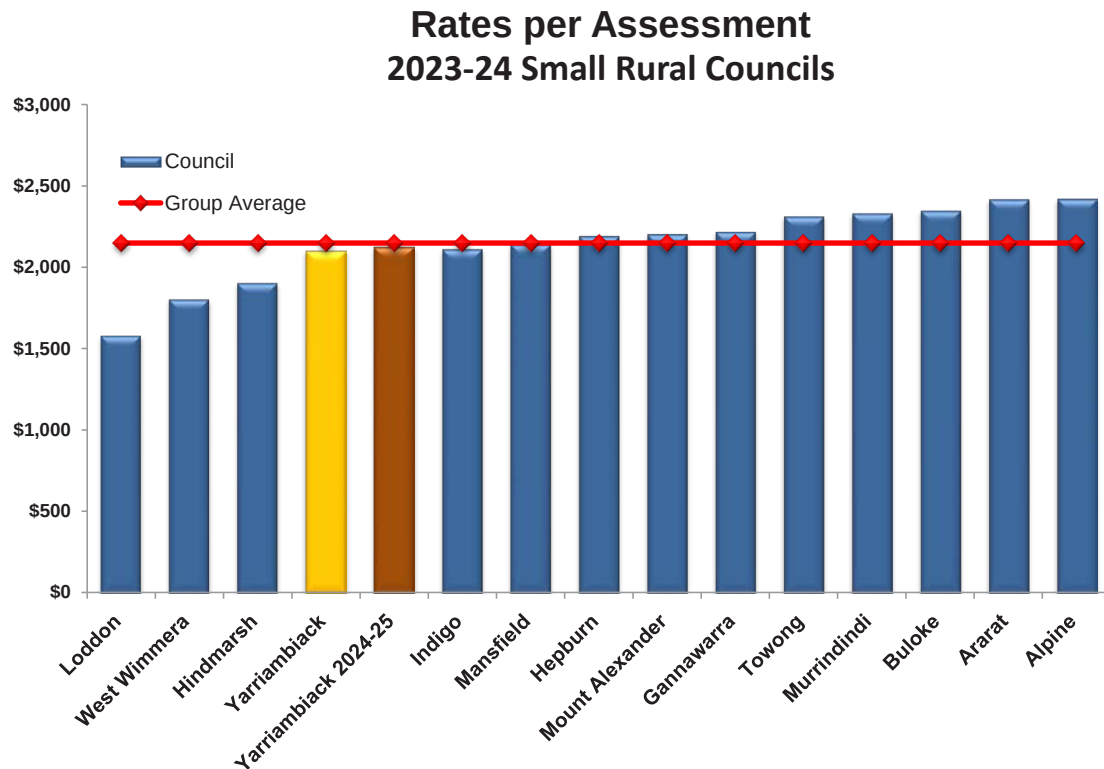
This is the first operational financial key performance indicator, moving away from the previous balance sheet indicators. Revenue in this indicator refers to operational revenue and excludes items such as capital grants, developer contributions, and contributed assets from developers.

Yarriambiack Shire Council's operational revenue is slightly below the group average which is driven up by the result for Towong Shire Council. The Towong Shire Council result is driven up by a high level of Other Income mainly on the strength of interest revenue on their high cash balance (\$1.87M) and an insurance reimbursement of \$1.589M which would be one-off in nature.

The Council's major sources of revenue are rates and grants with 90% coming from these two sources in 2023/24. Whilst the advanced paid Victorian Grants Commission is removed from the 2024/25 result, it cannot be compared to the 2023/24 result which had no Grants Commission funding.

The following charts highlight that the Council is average in rate revenue, above average in grants and below average in fee revenue.

2.2.10. What is our level of rates compared to others?



Analysis of outcome

This indicator shows rates and charges (including waste charges) levied per all assessments.

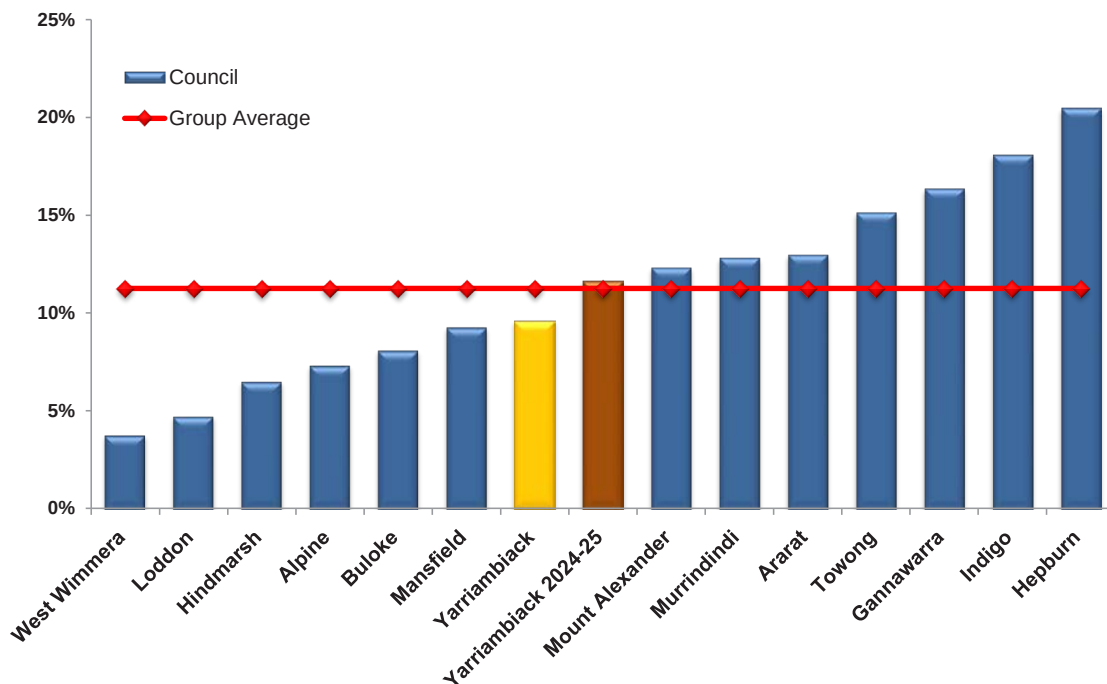
Yarriambiack Shire Council sits on the average for rates for assessment. With rates being capped since 2016 there is little chance to move in this ratio in comparison to others unless Councils apply for a rate cap variation. It should be noted that Hepburn Shire Council has achieved approval to lift rates by 10% in the 2025/26 financial year.

This indicator has further implications for Yarriambiack as it strives to reach a position where its waste service charge fully recovers the cost of the service.

The graph is interesting from the perspective of Ararat Rural City having applied zero rate increases for some years. Despite this, they remain the second highest rating Council in the benchmark group which shows that their rating position established before rate capping was quite high.

2.2.11. Are we able to collect our rates?

Average Rates Outstanding / Total Rates Levied 2023-24 Small Rural Councils



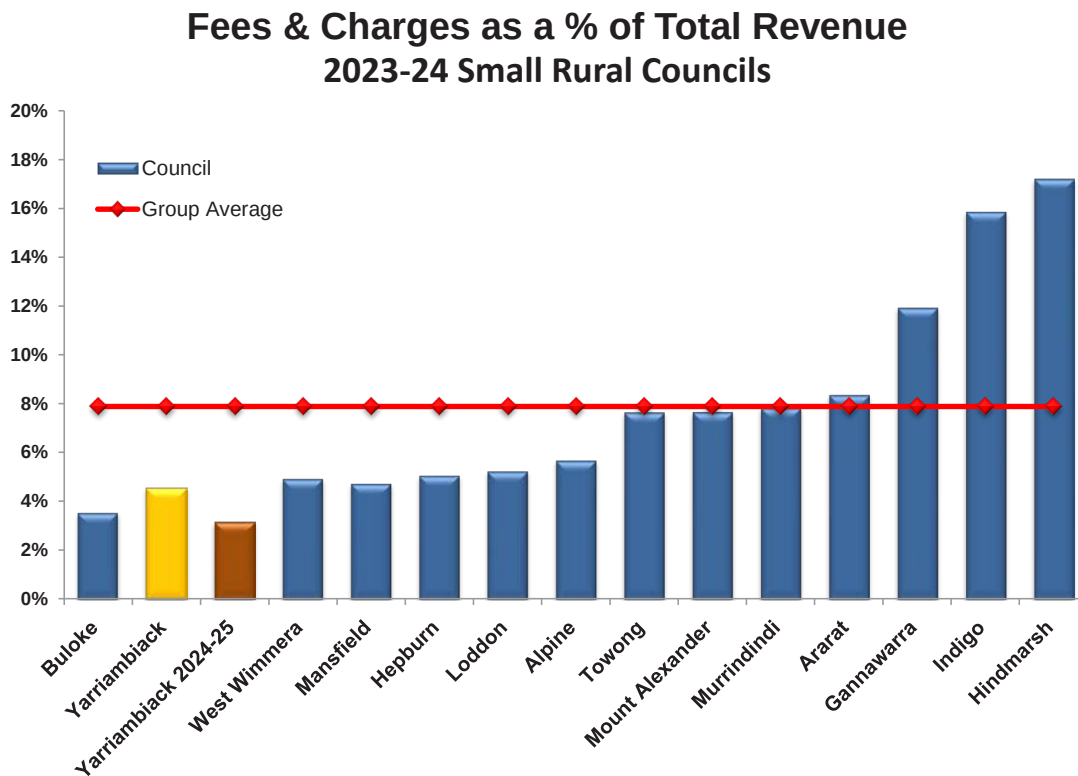
Analysis of outcome

This indicator shows that the Council has a slightly lower level of unpaid rates which is a positive result for the Council. It should be noted that industry averages in this ratio prior to the Covid years were around 4-6%. Since this point and with the introduction of further restrictions on how the Council can pursue unpaid rates, industry average outcomes have increased in unpaid rates.

The level of outstanding rates rose considerably in 2024/25 with a 22% jump in the level of rate arrears. This is an area of concern for the Council.

Unpaid rates do not impact the council's overall operating income but increase receivables, lowering cash balances

2.2.12. How much do we receive in fees compared to others?

**Analysis of outcome**

Yarriambiack Shire Council's revenue from fees and charges is well below the average for the regional grouping. The Council has minimal fee revenue with its highest source of fee revenue being caravan park fees (\$272,000). There looks to be relatively low levels of opportunity for the Council to grow this fee revenue other than potentially future revenue from renewable energy projects.

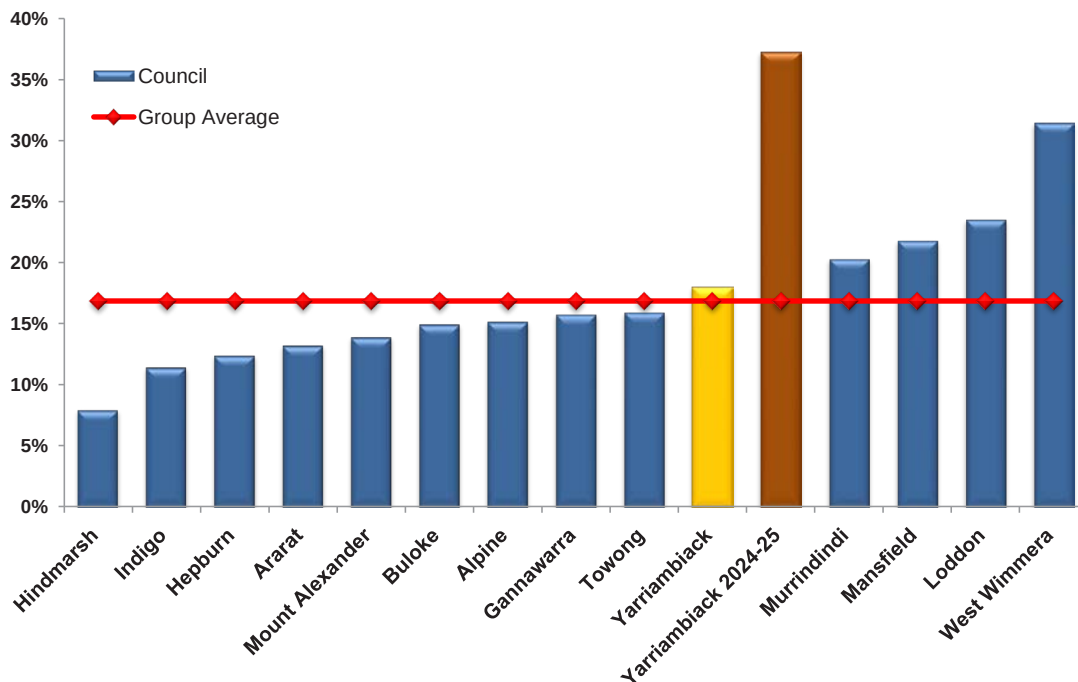
Some care, however, needs to be taken in reviewing this outcome. The nature of fees and charges (including statutory fees and fines) varies from Council to Council, depending on their services and how they choose to provide them. The main fee source for example in Indigo Shire Council is for Buller Gas Services where the Council delivers a service that provides gas to Mount Buller. The Council equally has offsetting expenditures in providing this service.

Hindmarsh Council have a high level of caravan park and camping fees (\$808,000) and are further reporting Regional Roads Victoria works as a user fee (\$1.11M).

Fee income in 2024/25 was on par with the amounts received in 2023/24 but Total Revenue rose with the Council receiving 100% of the Victorian Grants Commission funding in this year. (Noting that Total Revenue figure for this year excludes the 50% advanced payment.)

2.2.13. What is our relative operational grant revenue?

Grants as a % of Total Revenue 2023-24 Small Rural Councils



Analysis of outcome

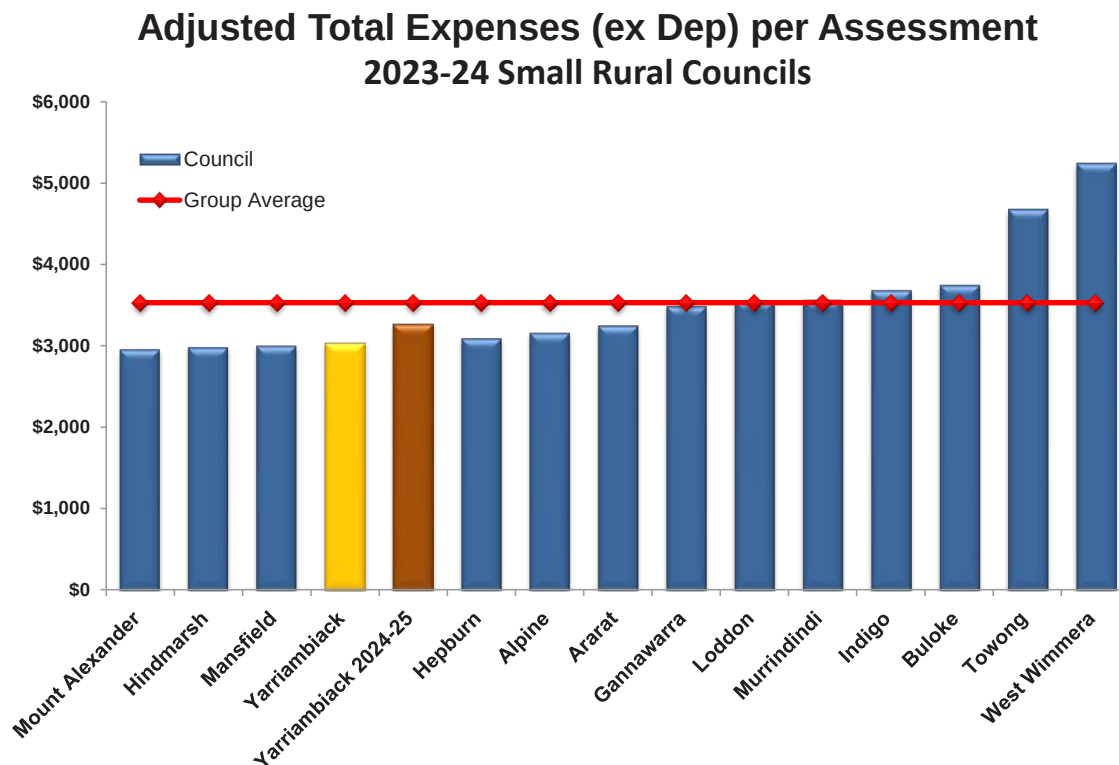
This indicator measures only operating grants and excludes capital grants.

Like the comments on Fees and Charges, grant revenue can reflect the services that the Council chooses to provide directly. It should also be noted that the 2023/24 year is one in which all the Councils in the comparison group did not receive a Financial Assistance Grant from the Grants Commission with the 100% advance payment being discontinued.

Outside of the normal payment for the Victorian Grants Commission, the highest grants that the Council receives relates to kindergartens (\$1.59M) and Maternal and Child Health (\$510,000). Changes to the services provided by the Council in the future may therefore impact on this ratio.

The 2024/25 increase reflects the resumption in Victorian Grants Commission funding and is therefore not comparable to 2023/24.

2.2.14. How much are we spending compared to others?

**Analysis of outcome**

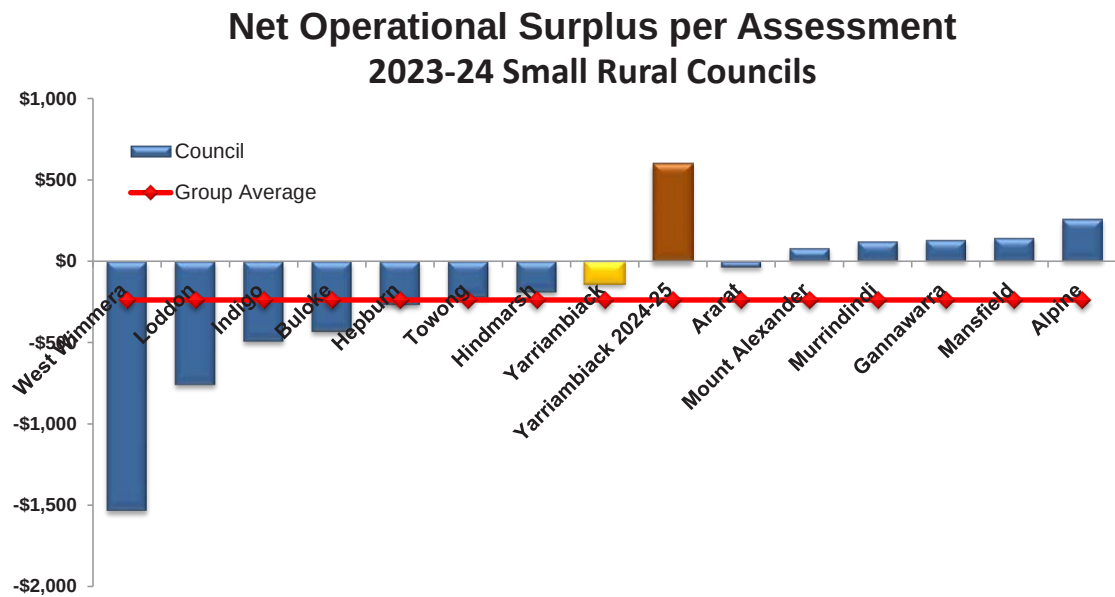
This indicator looks at operating expenditure and excludes the non-cash amount for depreciation.

Whilst this ratio is described as an 'efficiency indicator' in the Local Government Performance Reporting Framework, it is somewhat lacking because it is a one-dimensional indicator as it does not consider that expenditure is linked to revenue.

With the Council's revenue being below average, it is therefore to be expected that its comparative expenditure would equally be lower than average which it is.

This imperfect ratio needs to be read with some caution and is certainly not to be used as an 'efficiency indicator'.

2.2.15. Based on our revenue and expenditure – what level of operational surplus are we generating to put towards capital expenditure/debt redemption?



Analysis of outcome

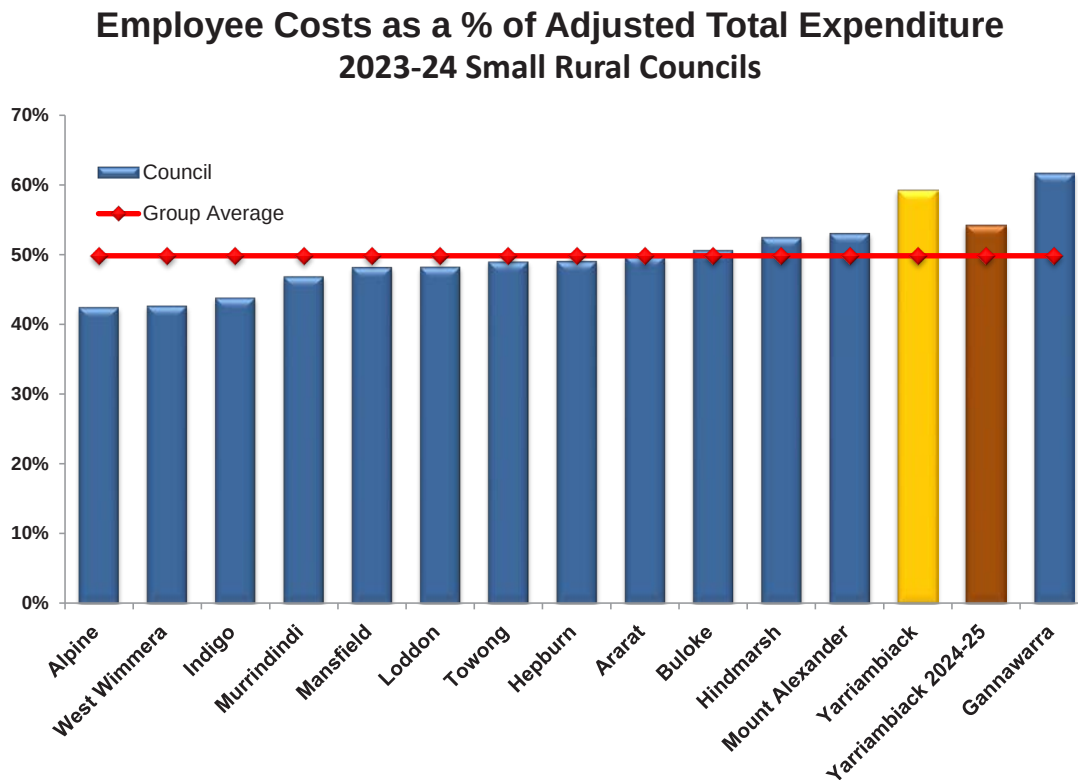
There is no perfect measure of operational efficiency in local government key performance indicators, but this measure is as close as possible. It measures the operational surplus generated after deducting operational expenses from operational revenues, which can be applied to capital funding and debt redemption.

It is important to note that this is an 'efficiency' measure, not an 'effectiveness' measure. Councils could improve their performance in this measure by withdrawing the provision of services to maximise funds available to capital. It must be considered in balance with community satisfaction with Council service provision.

This indicator is impacted for all Council results as it is based on a year where no Grants Commission funding was received. This has resulted in large scale deficits. On balance however, Yarriambiack Shire Council performs slightly better than the average result which indicates on the surface that the Council is not operating inefficiently.

The 2024/25 result reflects the resumption in Grants Commission funding and is therefore not comparable to the 2023/24 results.

2.2.16. How much of our expenses are tied up in employee costs?

**Analysis of outcome**

These final two measures need to be read in conjunction with each other.

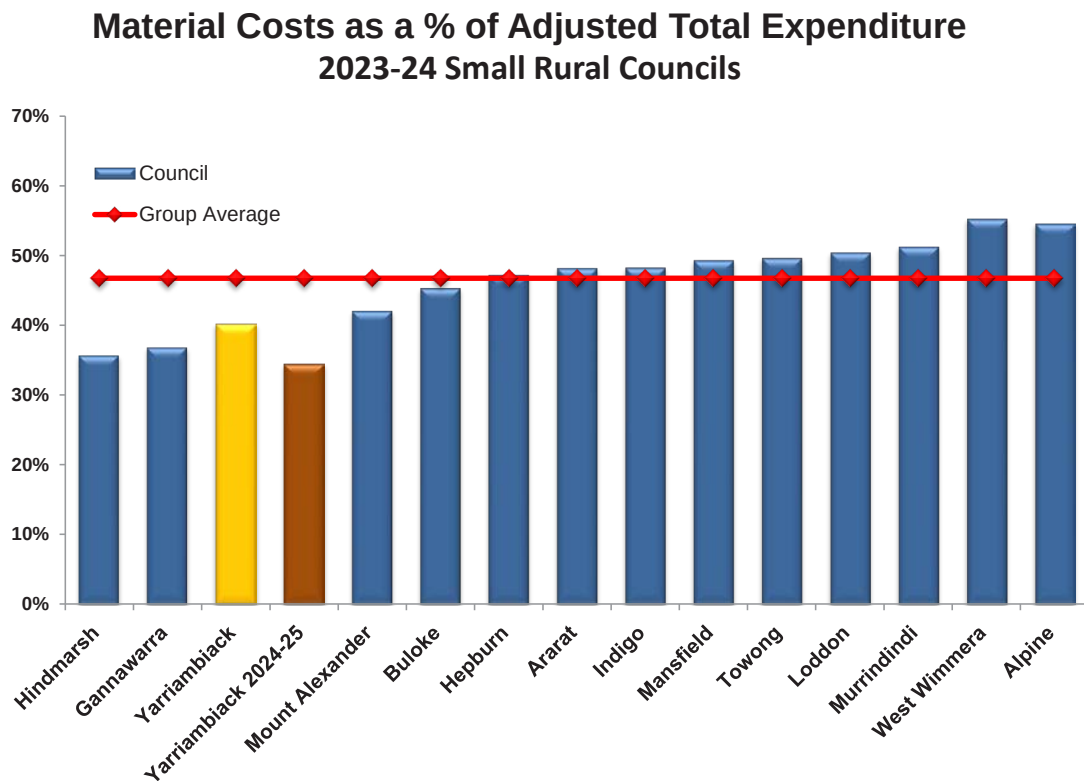
Employee and material costs form most of the Council's operational expenditures. The council needs to strike an ideal balance between the two.

The advantage of employee costs is that they allow the Council to guarantee access to an appropriately skilled workforce at a set price to ensure services can be provided. The disadvantage is that employee costs are a fixed cost that needs to be paid, and it is difficult to upsize and downsize depending on current needs easily.

The Council current structure is heavily weighted to providing operational services through Council employees rather than services being outsourced. This may also add some risks to the Council moving forward in terms of future wage increases.

It is notable that Council expenditure on employee costs fell by \$122,000 in 2024/25.

2.2.17. What is the balance of our expenses that we use to purchase materials and services?

**Analysis of outcome**

This graph is a 'mirror' image of the previous one, as councils with high commitments to employee costs are generally lower in terms of their percentage spent on materials and services.

The advantage of being high in this indicator is the flexibility afforded by moving Council spending up or down on any skill or service. The downside is that it is more impacted by the availability of resources and the price required to acquire materials and services. This is even more the case in the current environment of rapidly increasing costs, and the availability issue is a real concern in a remote rural location.

The council sits well below the group average in terms of its dependence on material and service costs. Expenditure on material and service costs fell by \$634,000 in 2024/25.

APPENDIX 2 - FINANCIAL STATEMENTS

Financial Plan Statements

This section presents information in regard to the financial plan statements for the ten years from 2025/26 to 2035/36.

- Comprehensive Income Statement
- Balance Sheet
- Statement of Changes in Equity
- Statement of Cash Flows
- Statement of Capital Works
- Statement of Human Resources
- Statement of Reserves

Comprehensive Income Statement														
	Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000
INCOME														
Rates and charges	14,808	15,035	15,590	15,590	16,171	16,575	16,989	17,413	17,848	18,294	18,752	19,221	19,701	20,193
Statutory fees and fines	222	230	183	183	188	192	197	202	207	212	218	223	229	235
User fees	709	631	658	658	674	691	708	726	744	763	782	801	821	842
Grants - operating	3,681	13,776	9,118	5,422	9,438	9,674	9,916	10,164	10,418	10,678	10,945	11,219	11,499	11,787
Grants - capital	5,623	2,477	5,338	5,338	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Contributions - monetary	153	163	-	-	-	-	-	-	-	-	-	-	-	-
Share of net profits of associates	(18)	(60)	-	-	-	-	-	-	-	-	-	-	-	-
Other income	1,019	1,286	1,004	1,004	1,029	1,055	1,081	1,108	1,136	1,164	1,193	1,223	1,254	1,285
Total income	26,196	33,539	31,891	28,195	29,600	30,287	30,992	31,713	32,453	33,212	33,990	34,788	35,605	36,441
EXPENSES														
Employee costs	12,690	12,568	11,853	11,853	12,209	12,575	12,953	13,341	13,741	14,154	14,578	15,016	15,466	15,930
Materials and services	8,604	7,971	9,034	9,034	8,083	8,285	8,813	8,704	8,922	9,145	9,728	9,608	9,848	10,094
Depreciation	5,369	8,999	7,822	7,822	8,354	8,502	8,647	8,792	8,942	9,093	9,242	9,391	9,546	9,702
Depreciation - right of use assets	398	315	-	-	-	-	-	-	-	-	-	-	-	-
Bad and doubtful debts	69	29	4	4	4	4	4	4	4	4	4	4	4	4
Borrowing costs	8	26	16	21	18	16	14	11	9	6	3	1	-	-
Finance costs - leases	28	17	-	-	-	-	-	-	-	-	-	-	-	-
Net loss on disposal of property, infrastructure, plant & equipment	189	2,600	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	2,187	2,446	2,733	2,733	2,801	2,871	2,943	3,017	3,092	3,169	3,249	3,330	3,413	3,499
Total expenses	29,542	34,972	31,462	31,467	31,470	32,254	33,373	33,869	34,710	35,571	36,804	37,349	38,278	39,228
Surplus/(deficit) for the year	(3,346)	(1,432)	429	(3,272)	(1,870)	(1,967)	(2,382)	(2,156)	(2,257)	(2,359)	(2,814)	(2,561)	(2,673)	(2,787)
OTHER COMPREHENSIVE INCOME														
Items that will not be classified to surplus or deficit in future periods														
Net asset revaluation increment/(decrement)	(1,624)	222	1,000	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive result	(4,970)	(1,210)	1,429	(3,272)	(1,870)	(1,967)	(2,382)	(2,156)	(2,257)	(2,359)	(2,814)	(2,561)	(2,673)	(2,787)

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Statement Of Changes In Equity
For the year ended 30 June
2026

	Total \$000	Accumulated Surplus \$000	Revaluation Reserve \$000	Other Reserves \$000
Balance at beginning of the year	224,170	84,748	139,407	15
Surplus/(deficit) for the year	429	429	0	0
Net asset revaluation increment/(decrement)	1,000	0	1,000	0
Balance at the end of the year	225,598	85,177	140,407	15

FORECAST 2026

Balance at beginning of the year	224,170	84,748	139,407	15
Surplus/(deficit) for the year	(3,272)	(3,272)	0	0
Net asset revaluation increment/(decrement)	0	0	0	0
Balance at the end of the year	220,897	81,476	139,407	15

2027

Balance at beginning of the year	220,897	81,476	139,407	15
Surplus/(deficit) for the year	(1,870)	(1,870)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	219,027	79,356	139,407	265

2028

Balance at beginning of the year	219,027	79,356	139,407	265
Surplus/(deficit) for the year	(1,967)	(1,967)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	217,060	77,139	139,407	515

2029

Balance at beginning of the year	217,060	77,139	139,407	515
Surplus/(deficit) for the year	(2,382)	(2,382)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	214,679	74,507	139,407	765

2030

Balance at beginning of the year	214,679	74,507	139,407	765
Surplus/(deficit) for the year	(2,156)	(2,156)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	212,522	72,101	139,407	1,015

2031

Balance at beginning of the year	212,522	72,101	139,407	1,015
Surplus/(deficit) for the year	(2,257)	(2,257)	0	0
Net asset revaluation increment/(decrement)	0	(250)	0	250
Balance at the end of the year	210,265	69,594	139,407	1,265

2032

Balance at beginning of the year	210,265	69,594	139,407	1,265
Surplus/(deficit) for the year	(2,359)	(2,359)	0	0
Net asset revaluation increment/(decrement)	0	(250)	0	250
Balance at the end of the year	207,906	66,984	139,407	1,515

Statement Of Changes In Equity

For the year ended 30 June

2033

	Total \$000	Accumulated Surplus \$000	Revaluation Reserve \$000	Other Reserves \$000
Balance at beginning of the year	207,906	66,984	139,407	1,515
Surplus/(deficit) for the year	(2,814)	(2,814)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	205,092	63,921	139,407	1,765

2034

Balance at beginning of the year	205,092	63,921	139,407	1,765
Surplus/(deficit) for the year	(2,561)	(2,561)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	202,531	61,109	139,407	2,015

2035

Balance at beginning of the year	202,531	61,109	139,407	2,015
Surplus/(deficit) for the year	(2,673)	(2,673)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	199,858	58,186	139,407	2,265

2036

Balance at beginning of the year	199,858	58,186	139,407	2,265
Surplus/(deficit) for the year	(2,787)	(2,787)	0	0
Transfers to other reserves	0	(250)	0	250
Balance at the end of the year	197,070	55,149	139,407	2,515

Statement o Cash Flows															Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000		
CASH FLOWS FROM OPERATING ACTIVITIES																														
Rates and charges															13,387	14,636	15,474	15,474	16,101	16,527	16,940	17,362	17,796	18,241	18,697	19,165	19,644	20,134		
Statutory fees and fines															196	194	183	183	188	192	197	202	207	212	218	223	229	235		
User fees															229	565	658	658	674	691	708	726	744	763	782	801	821	842		
Grants - operating															3,604	15,543	9,118	5,422	9,438	9,674	9,916	10,164	10,418	10,678	10,945	11,219	11,499	11,787		
Grants - capital															4,500	2,612	5,338	5,338	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100		
Contributions - monetary															153	179	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest received															445	471	-	-	-	-	-	-	-	-	-	-	-	-	-	
Trust funds and deposits taken															467	145	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net GST refund/payment															197	2,019	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other receipts															1,016	966	1,004	1,004	1,029	1,055	1,081	1,108	1,136	1,164	1,193	1,223	1,254	1,285		
Employee costs															(12,690)	(13,431)	(11,643)	(11,643)	(11,999)	(12,365)	(12,743)	(13,131)	(13,531)	(13,944)	(14,368)	(14,806)	(15,256)	(15,720)		
Materials and services															(10,303)	(7,576)	(10,012)	(10,094)	(8,331)	(8,263)	(8,788)	(8,674)	(8,897)	(9,111)	(9,697)	(9,577)	(9,820)	(10,065)		
Other payments															(2,130)	(2,753)	(2,677)	(2,677)	(2,745)	(2,815)	(2,887)	(2,961)	(3,036)	(3,113)	(3,193)	(3,274)	(3,357)	(3,443)		
Net cash provided by/(used) in operating activities															-929	13,571	7,443	3,664	6,455	6,796	6,524	6,897	6,937	6,990	6,677	7,076	7,114	7,155		
CASH FLOWS FROM INVESTING ACTIVITIES																														
Payments for property, infrastructure, plant & equipment															(10,391)	(9,100)	(9,550)	(8,550)	(6,415)	(6,415)	(6,118)	(6,524)	(6,533)	(6,646)	(6,362)	(6,781)	(6,804)	(6,831)		
Proceeds from sale of property, infrastructure, plant & equipment															66	194	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net cash provided by/(used) in investing activities															(10,325)	(8,906)	(9,550)	(8,550)	(6,415)	(6,415)	(6,118)	(6,524)	(6,533)	(6,646)	(6,362)	(6,781)	(6,804)	(6,831)		
CASH FLOWS FROM FINANCING ACTIVITIES																														
Proceeds from borrowings															500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Borrowing costs															-	(24)	(16)	(21)	(18)	(16)	(14)	(11)	(9)	(6)	(3)	(1)	-	-	-	
Repayment of borrowings															(20)	(43)	(43)	(43)	(45)	(47)	(50)	(52)	(55)	(57)	(60)	(31)	-	-	-	
Finance costs - lease liability															(28)	(16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by/(used) in financing activities															452	(83)	(59)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(32)	-	-	-	
Net increase /(decrease) in cash and cash equivalents															(10,803)	4,582	(2,166)	(4,949)	(23)	317	343	309	340	281	252	263	310	324		
Cash and cash equivalents at the beginning of the year															17,633	6,831	11,413	11,413	6,464	6,440	6,758	7,101	7,410	7,750	8,031	8,284	8,546	8,856		
Cash and cash equivalents at the end of the year															6,831	11,413	9,247	6,464	6,440	6,758	7,101	7,410	7,750	8,031	8,284	8,546	8,856	9,180		

Statement of Capital Works																
	Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000		
PROPERTY																
Land	69	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Land	69	-	-	-	-	-	-	-	-	-	-	-	-	-		
BUILDINGS																
Heritage Buildings	3,542	2,378	340	340	200	200	200	200	200	200	200	200	200	200		
Total buildings	15	-	-	-	-	-	-	-	-	-	-	-	-	-		
3,542	2,378	340	340	340	200	200	200	200	200	200	200	200	200	200		
Total property	3,611	2,378	340	340	200	200	200	200	200	200	200	200	200	200		
PLANT AND EQUIPMENT																
Plant, machinery and equipment	1,606	1,251	1,295	1,295	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000		
Fixtures, fittings and furniture	46	8	-	-	-	-	-	-	-	-	-	-	-	-		
Computers and telecommunications	-	52	60	60	60	60	60	60	60	60	60	60	60	60		
Library Collection	21	21	20	20	20	20	20	20	20	20	20	20	20	20		
Total plant and equipment	1,673	1,332	1,375	1,375	1,080	1,080	1,080	1,080	1,080	1,080	1,080	1,080	1,080	1,080		
INFRASTRUCTURE																
Roads	4,842	4,004	5,654	4,654	4,381	4,364	4,050	4,439	4,430	4,524	4,220	4,620	4,623	4,628		
Footpaths and cycleways	302	491	271	271	279	287	296	305	314	323	333	343	353	364		
Drainage	-	-	76	76	78	80	83	85	88	90	93	96	99	102		
Recreational, leisure and community facilities	-	176	1,451	1,451	100	100	100	100	100	100	100	100	100	100		
Parks, open space and streetscapes	16	90	-	-	-	-	-	-	-	-	-	-	-	-		
Waste Management	-	49	-	-	100	100	100	100	100	100	100	100	100	100		
Kerb & Channel	-	-	384	384	197	203	209	215	222	228	235	242	250	257		
Total infrastructure	5,160	4,811	7,835	6,835	5,135	5,135	4,838	5,244	5,253	5,366	5,082	5,501	5,524	5,551		
Total capital works expenditure	10,444	8,521	9,550	8,550	6,415	6,415	6,118	6,524	6,533	6,646	6,362	6,781	6,804	6,831		
Represented by:																
New asset expenditure	2,405	2,598	787	787	270	270	270	270	270	270	270	270	270	270		
Asset renewal expenditure	7,868	5,746	5,535	4,535	6,145	6,145	5,848	6,254	6,263	6,376	6,092	6,511	6,534	6,561		
Asset upgrade expenditure	186	176	3,228	3,228	-	-	-	-	-	-	-	-	-	-		
Total capital works expenditure	10,459	8,521	9,550	8,550	6,415	6,415	6,118	6,524	6,533	6,646	6,362	6,781	6,804	6,831		

Statement of Capital Works		Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000
Funding sources represented by:															
Grants	5,623	2,477	5,338	2,100	5,338	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Contributions	153	163	45	45	-	-	-	-	-	-	-	-	-	-	-
Council cash	4,203	5,881	4,168	3,168	4,315	4,315	4,315	4,018	4,424	4,433	4,546	4,262	4,681	4,704	4,731
Borrowings	480	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total capital works expenditure	10,459	8,521	9,550	8,550	6,415	6,415	6,415	6,118	6,524	6,533	6,646	6,362	6,781	6,804	6,831

Statement of Human Resources		Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000
STAFF EXPENDITURE															
Employee costs (\$000)	12,690	13,431	11,853	11,853	12,209	12,209	12,575	12,953	13,341	13,741	14,154	14,578	15,016	15,466	15,930
Total staff expenditure	12,690	13,431	11,853	11,853	12,209	12,209	12,575	12,953	13,341	13,741	14,154	14,578	15,016	15,466	15,930

STAFF NUMBERS															
Employees (FTE)	117	117	107	107	103	103	103	103	103	103	103	103	103	103	103
Total staff numbers	117	117	107	107	103	103	103	103	103	103	103	103	103	103	103

Statement of Reserves		Actual 2024 \$000	Actual 2025 \$000	Budget 2026 \$000	Forecast 2026 \$000	Budget 2027 \$000	Budget 2028 \$000	Budget 2029 \$000	Budget 2030 \$000	Budget 2031 \$000	Budget 2032 \$000	Budget 2033 \$000	Budget 2034 \$000	Budget 2035 \$000	Budget 2036 \$000
DISCRETIONARY															
Aerodrome	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Asset Capital Works	-	-	-	-	-	250	500	750	1,000	1,250	1,500	1,750	2,000	2,250	2,500
Total discretionary reserves	15	15	15	15	15	265	515	765	1,015	1,265	1,515	1,765	2,015	2,265	2,515
Total reserves	15	15	15	15	15	265	515	765	1,015	1,265	1,515	1,765	2,015	2,265	2,515

APPENDIX 3 - FINANCIAL PERFORMANCE INDICATORS

The following table highlights the Yarriambiack's projected performance across a range of key financial performance indicators. These indicators provide an analysis of our ten year financial projections and should be interpreted in the context of the organisation's objectives and financial management principles.

Financial Performance Indicators			Measure	Budget 2026	Forecast 2026	Budget 2027	Budget 2028	Budget 2029	Budget 2030	Budget 2031	Budget 2032	Budget 2033	Budget 2034	Budget 2035	Budget 2036
Operating position															
Adjusted underlying result		Adjusted underlying surplus-deficit / Adjusted underlying revenue	(3.8%)	(18.3%)	(6.3%)	(6.5%)	(7.7%)	(6.8%)	(7.0%)	(7.1%)	(8.3%)	(7.4%)	(7.5%)	(7.6%)	
Liquidity															
Working capital		Current assets / Current liabilities	134%	104%	106%	107%	109%	110%	111%	112%	113%	114%	115%	116%	
Unrestricted cash		Unrestricted cash / Current liabilities	64%	33%	33%	36%	39%	41%	43%	45%	47%	48%	50%	52%	
Obligations															
Loans and borrowings		Interest bearing loans and borrowings / rate revenue	2.5%	2.5%	2.2%	1.8%	1.5%	1.2%	0.8%	0.5%	0.2%	0.0%	0.0%	0.0%	
Loans and borrowings commitments		Interest and principal repayments on interest bearing loans and borrowings / rate revenue	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.2%	0.0%	0.0%	
Indebtedness		Non-current liabilities / own source revenue	7.7%	7.7%	7.5%	7.5%	7.4%	7.3%	7.2%	7.0%	7.1%	7.2%	7.4%	7.5%	
Asset renewal		Asset renewal and upgrade expense / Asset depreciation	112.0%	99.2%	73.6%	72.3%	67.6%	71.1%	70.0%	70.1%	65.9%	69.3%	68.4%	67.6%	
Stability															
Rates concentration		Rate revenue / Adjusted underlying revenue	51.5%	58.6%	54.6%	54.7%	54.8%	54.9%	55.0%	55.1%	55.2%	55.3%	55.3%	55.4%	
Efficiency															
Expenditure level		Total expenses / Number of property assessments	\$4,495	\$4,495	\$4,496	\$4,608	\$4,768	\$4,838	\$4,959	\$5,082	\$5,258	\$5,336	\$5,468	\$5,604	
Revenue level		General rates / Number of property assessments	\$1,804	\$1,804	\$1,850	\$1,896	\$1,943	\$1,992	\$2,042	\$2,093	\$2,145	\$2,199	\$2,254	\$2,310	
Financial Sustainability Indicators															
Net result margin		Net result / Total revenue	1.3%	(11.6%)	(6.3%)	(6.5%)	(7.7%)	(6.8%)	(7.0%)	(7.1%)	(8.3%)	(7.4%)	(7.5%)	(7.6%)	
Adjusted underlying result		Adjusted underlying surplus-deficit / Adjusted underlying revenue	(3.8%)	(18.3%)	(6.3%)	(6.5%)	(7.7%)	(6.8%)	(7.0%)	(7.1%)	(8.3%)	(7.4%)	(7.5%)	(7.6%)	
Liquidity		Current assets / Current liabilities	134%	104%	106%	107%	109%	110%	111%	112%	113%	114%	115%	116%	
Internal financing		Net operating cashflow / Net capital expenditure	78%	43%	101%	106%	107%	106%	106%	105%	105%	104%	105%	105%	
Indebtedness		Non-current liabilities / own source revenue	7.7%	7.7%	7.5%	7.5%	7.4%	7.3%	7.2%	7.0%	7.1%	7.2%	7.4%	7.5%	
Capital replacement		Cash outflows for the addition of new infrastructure, property, plant and equipment / Depreciation	10.1%	10.1%	3.2%	3.2%	3.1%	3.1%	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%	
Renewal gap		Renewal and upgrade expenditure / Depreciation	112.0%	99.2%	73.6%	72.3%	67.6%	71.1%	70.0%	70.1%	65.9%	69.3%	68.4%	67.6%	



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