



**Policy Owner:** Director Corporate Services

**Category:** 5. Our Civic Leadership

## 1. STATEMENT OF INTENT

- 1.1 This Policy provides a clear direction and context for decision making that guides the allocation, management and use of Council's financial resources. Adherence to this Policy will ensure that robust and transparent financial management is established and maintained to meet the Council's accountability to the community for the stewardship of community assets both now and into the future.
- 1.2 Under the *Local Government Act 1993* Council is required to prepare and adopt an annual budget. Council is also required to prepare a *Long Term Financial Plan* (within its *Resourcing Strategy*) for a minimum period of 10 years. The *Long Term Financial Plan* will summarise the financial impacts of the goals and objectives identified in the *Community Strategic Plan*, determine their sustainability, and set the future financial direction of the Council.
- 1.3 The *Long Term Financial Plan* will be used to assist decision making during finalisation of the *Community Strategic Plan* and the development of Council fixed term, four-year *Delivery Program*.
- 1.4 The *Long Term Financial Plan* must be reviewed in detail at least annually as part of the development of the annual *Operational Plan* and must be reviewed in detail as part of the four yearly review of the *Community Strategic Plan*.

## 2. ELIGIBILITY

- 2.1 This Policy applies to all Councillors, employees with delegated authority and external consultants employed as representatives of Council.

## 3. DEFINITIONS

- 3.1 Financial model - a decision making and problem-solving tool. It is a guide for future trends and actions. It will also provide an opportunity for council to identify financial issues at an earlier stage and gauge the effect of these issues in the longer term. A 'financial plan' is Council's response to those future trends.

- 3.2 Financial sustainability - describes a state when Council will have sufficient funds to meet all its resource and financing obligations and be able to respond to adverse changes in financial conditions.

## 4. PROVISIONS

This Policy is linked to Council's vision, mission and core values as outlined in the *Community Strategic Plan*. The provisions are as follows:

### 4.1 Organisational Sustainability

All relevant legislative requirements together with environmental, social, economic and governance factors are to be taken into account.

### 4.2 Guiding Principles

The following guiding principles must be observed by Councillors, employees and consultants when preparing the *Long Term Financial Plan*:

- 4.2.1 Prudent management of financial risks relating to debt, assets and liabilities. Council will set financial parameters within which the organisation could operate and remain financially stable and operationally focused.
- 4.2.2 Provision of reasonable stability in the level of rate burden.
- 4.2.3 Consideration of the financial effects of Council decisions on future generations.
- 4.2.4 Future lifecycle costs will be reported and considered in all decisions relating to new services and upgrading of existing services and asset renewal.
- 4.2.5 Future service levels will be determined in consultation with the community.
- 4.2.6 Provision of accurate and timely disclosure of strategic financial information.
- 4.2.7 New revenue sources to be identified where possible.

### 4.3 Financial Sustainability

The following aims and parameters are designed to assist Council in achieving financial stability, affordability, focus and efficiency:

- 4.3.1 Council will aim to maintain Available Funds (the unallocated portion of all future revenues) at 7.5% of rating revenue as per Council's Working Capital Financial Model. Available Funds are 'working capital' used to meet short term cash requirements, provide contingency for unexpected costs or loss of revenue, and to provide the flexibility for Council to take advantage of opportunities that may arise from time to time.

While it is anticipated that at a point in time the Available Fund balance may fall below the targeted level, the onus in planning is to ensure adequate adjustment is made to restore the balance through future programs, within an acceptable timeframe.

- 4.3.2 Borrowings are funds that a Council may source from external parties either by overdraft, loans or by any other means approved by the Minister for Local Government such as finance leases.

Borrowing will be undertaken in line with the following principles:

- a) That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed;
- b) That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.
- c) That loan funds will be limited:
  - to the acquisition or enhancement of income producing assets;
  - to the construction and/or upgrading of buildings;
  - to infrastructure assets that have a life expectancy of greater than 10 years.
- d) That loan borrowings will not exceed a 'net debt service ratio' of 5%.

Debt will only be approved where there is an agreed economic, social, or environmental benefit from a project and other sources of funding are not available. Council's *Debt Management Policy* provides the framework for Council's borrowing activities and defines key responsibilities and the operating parameters within which borrowing and related risk management activities are to be carried out.

- 4.3.3 Leasing facilities are broken down into two types, operating and finance, with the main difference being that finance leases entail the notion of ownership and subsequently fall under the umbrella of Council's global borrowing limit, whereas operating leases represent rental arrangements that are not included in the global borrowing limit. Presently, Council has no "finance" leases and several operating leases.
- 4.3.4 The operating result (before capital) is considered to be the one of the main indicators of the long term viability of Council. In broad terms a deficit from operations indicates that Council is not earning sufficient revenue to fund its ongoing operations (services), and to continue to

renew existing assets. The indicator includes significant accounting and engineering estimates relating to the consumption of long lived assets (depreciation) which significantly impact this result. This estimating process requires continued refinement and consultation across the industry between engineering and finance professionals.

Note 1 'Summary of Significant Accounting Policies' of the Annual Financial Statements identifies the adopted principal accounting policies and parameters. These policies are reviewed annually in accordance with accounting standards and code of accounting practice and financial reporting guidelines.

- 4.3.5 Note 13(a) 'Local government industry indicators' of the Annual Financial Statements provides benchmark performance ratios. These indicators reflect trends over a four year perspective.

The key indicators Council currently uses are as follows:

- a) **Operating performance ratio** - this ratio measures Council's achievement of containing operating expenditure within operating revenue.
  - b) **Own source operating revenue ratio** - this ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.
  - c) **Unrestricted current ratio** - to assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.
  - d) **Debt service cover ratio** - this ratio measures the availability of operating cash to service debt including interest, principal and lease payments.
  - e) **Rates, annual charges, interest and extra charges outstanding percentage** - to assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.
  - f) **Cash expense cover ratio** - this liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.
- 4.3.6 Council's annual allocations to recurrent and non-recurrent budgets will generally not exceed anticipated cash inflows and be consistent over the medium term. Council's cash reserves which are above the minimum requirement will be made available for re-allocation. A comment by the Responsible Accounting Officer regarding the financial implications of any funding revotes must be included in all relevant Council reports.
- 4.3.7 The full life cost of capital expenditure will be considered before capital projects are approved. Asset renewal, maintenance, and operational costs impacting on future budgets will be included in forecasts as part of the capital budgeting process.

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- 4.3.8 Capital expenditure decisions need to be fully informed by understanding the impacts on future results. A building cannot be considered as a one-off cost. It will have operational costs for electricity, water, and consumables and will normally involve services that will require operational budgets, including employee costs. The building will then need to be maintained and eventually renewed and or be disposed of. Consideration of these costs and any potential revenue must be part of the initial process and be recorded in future estimates to aid further financial planning.
- 4.3.9 Council's will review its longer term rating strategy (model) annually as part of its *Long Term Financial Plan*. Business and residential rating structures will form part of the review.
- 4.3.10 Council's pricing methodology will be applied consistently for all fees and charges. Fees and charges will be reviewed annually to ensure compliance and currency. The *Fees and Charges Schedule* will include each fee to be levied, the purpose of the fee, the current amount of the fee and the GST inclusive price.

The factors that determine Council's pricing policy are equity, user pays and market rates:

- a) Prices represent either the full recovery of costs or the current market-rate whichever is the greater, except to those individuals or groups that have been identified as disadvantaged and in need of "special consideration".
  - b) Council reserves the right to vary this pricing policy on any reasonable basis having regard for specific circumstances.
  - c) Council documents that are made available on Council's website will be free of charge except for those variations identified in the *Fees and Charges Schedule*.
  - d) Council will charge a fee for the use of credit cards by customers when making payments. *Credit card transactions in excess of \$20,000.00 (GST Incl) will attract a service fee.*
- 4.3.11 Council's revenue strategies will be considered as part of the longer term financial planning in accordance with its *Resourcing Strategy*. Rates increases are determined by the Minister for Local Government and rate variations beyond this level will be linked to community expectations for services.
- 4.3.12 Council will actively pursue grant funding and other contributions to assist in the delivery of core services.
- 4.3.13 Council will invest surplus cash in accordance with its *Financial Investment Policy*. Returns on externally restricted cash will be transferred to restricted cash and treated as capital revenue where required. Estimated returns on unrestricted investments will be partly

applied to the recurrent budget (maximum - up to the projected CPI rate of return) and the balance transferred to internally restricted reserves.

4.3.14 All funds generated from the sale of assets will be directed to assets that offer improved community benefits or are income-producing. Revenue from asset sales will not be directly used to offset recurrent operating expenditure.

4.3.15 Bonus income is deemed to be income received either outside the normal budgeting process or income received within the standard budget but of an amount that would be abnormally large by its nature (a variation greater than \$100,000).

This income should in the first instance be applied to any losses of income brought about by market fluctuations (e.g. rent reviews) then any surplus would be a transfer to the reserves. Up to 50% of funds received may be allocated for income-producing projects and the balance, allocated to internally restricted reserves.

4.3.16 Consideration will be given to those members of the community, who because of their special circumstances may not be able to access the service:

Ratepayers and Residents – information on adjoining properties for the purpose of the Dividing Fences Act 1991	Free
Pensioners	up to 50% of “full cost” or the maximum permitted under the legislation.
Non Profit Organisations or Groups	up to 50% of “full cost”.
Profit oriented groups -Permanent Hirers only of Facilities (more than 12 bookings per annum)	up to 15% or current market rates.
Children/Students - Pre-school - Kindergarten to Year 12	Free up to 50% of “full cost” or the maximum permitted under the legislation.

4.3.17 Council will adopt the maximum interest rate applicable each year for outstanding rates and domestic waste management charges.

4.3.18 Council will maintain an ongoing review of its services that seeks to better define service requirements, refine delivery methods and balance service aims against affordability for both the Council and our customers.

## 5. RESPONSIBILITY/ACCOUNTABILITY

- 5.1 Council's Financial Services Department is the key stakeholder of this Policy. However, all related Departments/Council staff that have direct or indirect association to financial planning and management, are also responsible for the whole or part lifecycle management of Council's financial management.
- 5.2 The effectiveness of this Policy shall be reviewed at least once during the term of Council.

## 6. RELATED POLICIES/DOCUMENTS/LEGISLATION

The Policy should be read in conjunction with the following Council policies and documents:

- Annual Financial Statements
- Asset Management Policy
- Asset Management Strategy
- Community Strategic Plan
- Debt Management Policy
- Delivery Program
- Fees and Charges Schedule
- Financial Hardship Policy
- Financial Investment Policy
- Long Term Financial Plan (component within Resourcing Strategy)

The Policy should be read in conjunction with the following documents/legislation:

- Local Government Act 1993
- Local Government Regulations 2005

Version	Date Approved	Approved by	Resolution No.	Review Date
1	21 June 2010	Council	361	2012/13
2	18 February 2013	Council	61	2016/17
3	25 June 2018	Council	214	2020/21