

	<b>Financial Planning and Sustainability Policy</b>
	<b>Strategic</b>

### **1. Purpose of Policy**

The purpose of this policy is to establish the strategic financial planning and sustainability framework to guide Council when developing the Annual Budget, Long Term Financial Plans and when making decisions including the consideration of funding options for infrastructure projects which impact on the both the present and future financial position of Council.

### **2. Principles**

The development of the annual budget, long term financial plan and decisions which impact on the financial position of Council will be based on the following:

- Council will maintain its service levels to residents as described in the community strategic plan (CSP) and defined below (7).
- Any changes to future service levels will be determined in consultation with the community.
- Budgets will aim to maintain assets to at least the same condition as they were at the start of each financial year.
- Management will continually look for ways to structurally realign resources and/or increase income opportunities without changes to service standards.
- Consideration of the financial effects of Council decisions on future generations.

The Council shall strive to achieve equity between generations of ratepayers (intergenerational equity) whereby the mechanisms to fund specific capital expenditure and operations take into account the ratepayers who benefit from the expenditure and therefore on a user pay basis who should pay for the costs associated with such expenditure.

- Asset management plans require updating (now 7 years old) since the latest revaluation of building assets and must be linked to the Long Term Financial Plan.
- Future lifecycle costs will be reported and considered in all decisions relating to new services, upgrading of existing services, asset renewal and new capital works.
- Council must achieve a fully funded operating position reflecting that Council collects enough revenue to fund operational expenditure, the repayment of debt and depreciation.
- Council must have a fully funded capital program, where the source of funding is identified and secured for both capital renewal and new capital works.
- Funding for capital and infrastructure projects will be by a combination of revenue sources including operating surpluses, rates and service charges, working capital, asset sales, borrowings and other asset financing arrangements.
- Council must maintain sufficient cash and investments to ensure that it can meet its short-term working capital requirements as defined by available working capital calculations using audited financial information each year.
- Council must maintain its asset base by renewing ageing infrastructure and by ensuring working capital is set aside for those works.

### **3. Financial Sustainability**

Council is financially sustainable if its financial position, financial performance and its ability to manage the efficient operation of infrastructure is maintained over the long term and it is able to manage likely developments and unexpected financial changes in future periods without unplanned increases in rates and charges or disruptive cuts to services providing a

	<b>Financial Planning and Sustainability Policy</b>
	<b>Strategic</b>

degree of stability and predictability in the overall rate burden allowing for an equitable distribution of council resources between current and future ratepayers.

In more simplified terms for this policy, financially sustainable is where planned service and infrastructure levels and standards are maintained without unplanned increases in Rates & Annual Charges or Fees & Charges or there is a need to cut services.

#### **4. Financial Planning and Monitoring**

Financial planning is an integral part of the strategic management planning activities of Council. It involves the development of long-term financial plans that are consistent with the resource allocation objectives and the timeframes set out in the Community Strategic Plan.

The Long Term Financial Plan is the key financial planning document of Council and its preparation is to be governed by the following key financial strategies:

- The maintenance of a fair and equitable rating structure
- Achieving, where appropriate, full cost recovery for the provision of services and meeting competitive neutrality requirements through appropriate fees and charges
- Achieve operating surpluses from continuing operations before grants and contributions provided for capital purposes which can be utilised for the provision of new assets for which insufficient s7.11 or grant funding is available
- Fully utilising depreciation for the renewal of assets and providing the appropriate level of funding for their scheduled and reactive maintenance<sup>1</sup>
- Continually monitoring asset conditions
- to minimise the likelihood of infrastructure backlogs
- Reviewing the utilisation and appropriateness of infrastructure assets and where appropriate undertaking asset rationalisation
- Maintaining an appropriate level of borrowings which reflects inter-generational equity in funding service levels without being reliant on debt
- Only utilising borrowings where appropriate by ensuring the maintenance of services is not reliant on debt
- The maintenance of a sound financial position reflected in Council's performance ratios

#### **5. Capital Expenditure**

As noted above Council, in the management of existing assets, will fully utilise depreciation for the renewal of those assets and provide the appropriate level of funding for their scheduled and reactive maintenance.

In acquiring new assets, the following factors should be considered:

- Council's current and future Operating Surpluses, s7.11 contributions and Grants.
- Any additional depreciation and maintenance costs.
- Any relevant interest cost and the impact on the Operating Surpluses.
- The requirement to increase Council rates to fund acquisition and ongoing costs.
- The age, life expectancy, suitability and service potential of any asset to be replaced.

	<b>Financial Planning and Sustainability Policy</b>
	<b>Strategic</b>

- Reviewing, on a regular basis, Council assets to confirm compliance with adopted asset management principles defined below (7) and identify those assets which may no longer be required (e.g., parcels of undeveloped land) and may be sold to raise funds for more desirable community facilities. Asset sales will not be used to fund operations.

## 6. Borrowings

Council recognises that loan borrowings for capital works are an important funding source for Local Government and will accord to the principle of Inter-Generational Equity, Funding as defined below (7) in that the full cost of infrastructure should not be borne entirely by present-day ratepayers, but be contributed to by future ratepayers who will also benefit. Council will:

- Restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which are unable to be funded from revenue.
- Ensure that all borrowings (both internal and external) are in accordance with legislative requirements.
- Not borrow money to fund operating expenditure as this type of expenditure should be funded through operating revenue streams.
- Minimise the cost of borrowings.
- Ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments and budgetary obligations.
- The term of any loan will not exceed the expected economic life of the asset being funded.
- Achieve a financial indicator of greater than 2 for the Debt Service Cover Ratio which is a key performance indicator of the Office of Local Government.

## 7. Definitions

*Level of service* – the defined service quality for a particular service against which service performance may be measured. Service levels usually relate to safety, quality, quantity, reliability, responsiveness, cost/efficiency, and legislative compliance. Technical measures may relate to quality – smoothness of roads, condition of a building, quantity – area of parks per resident.

Council's services are heavily reliant on an asset infrastructure that has been built up over generations. These assets require significant on-going investment in maintenance and renewal activities to ensure they are fit-for-purpose and able to deliver expected levels of service. It is necessary to engage the community in discussions on desired service levels and ensure asset investment decisions consider the 'whole of life' cost and balance the funding for investment in new/upgraded assets with the investment in asset renewal

*Asset Management Principles* – Council will apply the following nine (9) key principles in managing its assets:

- **Best Practice:** Council's asset management procedures will be developed to ensure asset management best practice is implemented throughout Council.
- **Sustainability:** Council will implement asset management in a sustainable manner balancing economic, social and community impacts while demonstrating civic and environmental leadership.

- **Levels of Service:** Agreed service levels will be determined in consultation with the community and defined in Council’s Asset Management Plans.
- **Accountability & Responsibility:** Asset management accountabilities and responsibilities will be defined, understood and accepted by all involved.
- **Environment:** Council will develop and implement best value environmentally sustainable asset management practices.
- **Finances:** Council will integrate asset management, long term financial and strategic resource planning to ensure Council’s long term financial sustainability.
- **Risk Management:** Council will apply risk management practices to ensure asset performance and community safety, including risks associated with climate change.
- **Life Cycle Approach:** Asset planning decisions will be based on full life cycle costs of an asset through acquisition, operation, maintenance, renewal and disposal.
- **Statutory Compliance:** Council will meet all relevant legislative requirements for asset management.

**8. Version Control**

Review Date: September 2021  
 Responsible Officer: Chief Financial Officer

	<b>Version</b>	<b>Resolution</b>	<b>Date</b>
Financial Planning and Sustainability	1	372/1819	18 April 2019