

POLICY OBJECTIVE

The objective of this policy is to assist Council to comply with sound financial management principles in accordance with the *Local Government Act (1993)* and to plan for the long-term financial sustainability of the Council.

The policy achieves this through establishing a set of financial sustainability principles to guide Council when making decisions on the allocation and use of Councils financial resources, to provide direction in the development of short- and long-term financial plans and to ensure Council continues to improve its financial sustainability and asset management.

SCOPE

This policy applies to all Councillors and Council staff members.

LEGISLATIVE REQUIREMENTS

The Local Government Act 1993 Section 8B outlines the following Principles of sound financial management:

The following principles of sound financial management apply to councils-

- a) *Council spending should be responsible and sustainable, aligning general revenue and expenses.*
- b) *Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.*
- c) *Councils should have effective financial and asset management, including sound policies and processes for the following-*
 - i. *performance management and reporting,*
 - ii. *asset maintenance and enhancement,*
 - iii. *funding decisions,*
 - iv. *risk management practices.*
- d) *Councils should have regard to achieving intergenerational equity, including ensuring the following-*
 - i. *policy decisions are made after considering their financial effects on future generations,*
 - ii. *the current generation funds the cost of its services.*

POLICY STATEMENT

Long-term financial sustainability is important to Council to ensure it can deliver the services, programs and facilities expected by the community whilst also balancing Council's need to remain financially stable in the short and long term.

As it currently stands, 2019/20 financial year, Council need to take action to ensure long term financial sustainability is achieved. A key indicator of Council's long-term financial sustainability is the ability to achieve an operating surplus, excluding capital income.

The underlying operating result as defined by the Institute of Chartered Accountants (2009) is a measure of the financial sustainability of a Council. Continuous underlying operating deficits lead to a loss in equity, reduction in asset base, drop in service standards over time and a deferral of costs to future generations. The underlying operating result is the operational result (balanced, surplus or deficit) less gifted assets, developer contributions, asset revaluations, and write offs and

impacts of asset sales. Capital income is further deducted on the grounds it represents an 'unmatched' income (expenditure is not included) and it is a non-recurring income source.

Of particular importance is this measure solely looking at Council's General Fund. If Council is achieving a deficit in the General Fund, then this broadly indicates that there isn't sufficient revenue to deliver services and renew assets. If Council is achieving a surplus, then this indicates an ability to meet current service and asset requirements whilst also allowing Council to increase its financial reserves.

Council's current Long-Term Financial Plan (2019/20 year) indicates that the General Fund is currently in a deficit position and action will need to be taken to improve this financial position.

The Principles outlined in this Policy aim to provide the framework within which Council agrees to operate to ensure long term financial sustainability is achieved, with a particular focus on an improvement in the financial position of Council's General Fund.

Operating Surplus

As outlined above action needs to be taken to ensure an annual operating surplus is achieved at a General Fund level. Council has made significant improvement at a Consolidated level (General, Water and Sewer funds combined) and, excluding capital, Council is now generating an annual surplus.

In order to ensure this surplus is maintained at a Consolidated level and improvement is undertaken at a General Fund level the following principles are to be implemented:

- Council's General Fund is currently operating in a deficit position, as such, Council will develop actions, in consultation with its community, to improve this financial position to achieve a surplus budget by 2024.
- Council will aim to achieve a General Fund operating surplus in the range of 2% to 5%.
- Once the General Fund is in surplus Council will aim to achieve an aggregate surplus position (excluding capital income) in each of its General, Water and Sewer funds across any four-year period.
- Councils annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows.

Debt Levels

In the 2018/19 financial year Council paid out its remaining debt and now has zero debt. Council will consider the use of debt to fund capital expenditure that aligns with intergenerational assets, where it will significantly reduce maintenance costs or if required to address a high or extreme risk.

In order to manage debt levels, the following financial principles will be implemented:

- Council commit to delivering an operating surplus when additional borrowings are considered. In the event that borrowings are taken out while an operating deficit exists, Council will take action in the following financial year to operate in a surplus position.
- Council will maintain a debt service ratio (principal and interest repayments as a percentage of operational revenue) below the industry standard of 10%.
- Council will only use debt to fund intergenerational capital assets or where a high or extreme risk necessitates urgent action.

- The use of debt to fund any project will only be approved where a detailed business case that outlines the social, economic and environmental benefits of the project has been completed and other sources of funding are not available.

Asset and Service Provision Costs

A key focus for Council is balancing the delivery and maintenance of existing assets and services with community demand and requests for new services and assets. Council need to ensure that the existing costs of assets and services are able to be met prior to the provision of new services and assets. In order to ensure this is achieved Council commit to the following principles:

- Council will meet current service levels and asset renewal requirements before allocating resources for new services or assets.
- Before Council approves the acquisition of a new asset or expanded service it will subject any proposal (minimum \$50,000 in value) to a detailed business case analysis that addresses; social, economic and environmental benefits. The Business Case will also consider the Community Strategic Plan, risk framework and Councils Long Term Financial Plan.
- The full lifecycle cost of capital expenditure will be considered before capital projects are approved. This includes consideration of the renewal, maintenance and operational impacts.
- Annually Council will apply at least 80% of operational funds available for Capital to the renewal of existing assets.

Efficiency and Value for Money

Council is committed to ensuring the efficient delivery of Council services and infrastructure to provide value for money for ratepayers. In order to do this, Council commit to the following principles:

- Council will regularly review its services and assets and modify them to ensure they are appropriate, relevant and being provided cost effectively.
- Council assets that are identified as a lower priority may be sold to raise funds to ensure the suitable provision of higher priority assets.
- Council will implement a service review program that ensures all services are reviewed across a five-year period. Each review will be considered within the context of the service planning framework, commence from a zero-based budgeting perspective and ensure agreed service levels are met efficiently and effectively.
- Fees and charges will be reviewed annually to balance the cost of service provision with fairness and compliance.
- Council will continue to deliver operational savings wherever possible through a focus on strategic procurement, commercial capability and other improvements as identified.

Performance Management and Reporting

Council's adherence to sound financial management principles will be monitored via a series of industry accepted rolling benchmarks. The following metrics will be reported to Council and the community on an annual basis;

NSW Local Government Indicators

- Operating Performance Ratio
- Own Source Operating Revenue Ratio
- Building & Infrastructure Asset Renewal Ratio

- Debt Service Cover Ratio
- Outstanding Charges Percentage
- Cash Expense Cover Ratio

ASSOCIATED POLICIES AND PROCEDURES

This Policy is supported by Councils:

- Long Term Financial Plan
- Asset Management Policy
- Community Strategic Plan
- Delivery Program
- Operational Plan

DEFINITIONS

Council Financial Sustainability - A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

POLICY VERSION CONTROL

Title	Financial Sustainability Principles Policy			
ECM Doc Set ID				
Date Adopted	20/02/2020			
Council Minute No.	2020/15			
Responsible Officer	Director Corporate Services			
Version Number	Modified By	Modifications Made	Date modified and Approved by Council	Council Minute Number
1	Adam McSwain	Document	20/02/2020	2020/15