

POLICY OBJECTIVE

The objective of this policy is to comply with sound financial management principles in accordance with the *Local Government Act (1993)* section 8B, and to ensure the long-term financial sustainability of the Council.

This will be achieved through establishing financial sustainability principles to guide Council when making decisions on the allocation and use of Councils financial resources, to ensure Council continues to improve its financial sustainability and asset management.

SCOPE

This policy applies to all Councillors and Council staff members.

COMPLIANCE REQUIREMENTS

Legislation	Regulations	Codes, Plans or Strategies
Local Government Act 1993	Local Government Regulation (General) 2021	Code of Conduct

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.

A key indicator of Council’s long-term financial sustainability is the ability to achieve an operating surplus, excluding capital income. The underlying net operating result (NOR) is the operational result, less write-offs, asset revaluations impacting the income statement and one-off items. Capital income is deducted as this represents unearned income and it is a non-recurring income source.

This measure is key to assessing Council’s general fund financial sustainability. If Council is achieving a surplus, this indicates an ability to meet current service and asset requirements whilst also allowing Council to increase its financial reserves.

If Council is incurring a deficit in the general fund, this indicates insufficient revenue to deliver services and renew assets. Continuous underlying operating deficits lead to a loss in equity, reduction in asset base, reduced service standards, and a deferral of costs to future generations.

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 sustainability of Council’s general fund.

Operating Surplus

Council needs to ensure an annual operating surplus is achieved for the general fund level. Council has made significant improvement at a consolidated level for its five funds (general, water, sewer, waste and Edward River village) combined and, excluding capital, Councils NOR is in surplus.

Council endorses the following operating surplus principles:

- Council will aim to achieve a general fund operating surplus in the range of 1% to 5% annually.
- Council will aim to achieve an aggregate surplus position (excluding capital income) annually.
- Council's annual allocations to operational and capital budgets should not exceed anticipated cash inflows.

Debt Levels

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 reduce risk.

Council endorses the following debt principles:

- Council commits to achieve an operating surplus when additional borrowings are considered.
- Council will maintain a debt service ratio below the industry standard
- 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 robust business case that outlines the social, economic, and environmental benefits of the project has been completed and other sources of funding are not available and complies with councils risk appetite.

Asset and Service Provision Costs

Council needs to balance the delivery and maintenance of existing assets and services with community demand and requests for new services and assets, and to ensure that the existing costs of assets and services can be met prior to the provision of new services and assets.

Council endorses the following asset and service provision principles:

- Council will meet current service statement commitments 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 above \$250,000 to a robust business case analysis that addresses; risk, social, economic, and environmental benefits. The Business Case will also consider the Community Strategic Plan, Long Term Financial Plan (LTFP), Workforce Management Plan (WMP), and Asset Management Plan (AMP)

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- The full lifecycle cost of capital expenditure will be considered before capital projects are approved. This includes consideration of the renewal, maintenance, disposal, and operational impacts.
 - Council will ensure asset renewals are made in accordance with councils Asset Management Strategy (AMS) or meet the industry benchmark of 100% to ensure that the existing costs of assets and services can be met.

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.

Council endorses the following efficiency and value-for-money principles:

- Value for money is determined by considering all the factors that are relevant to the proposed procurement. These may include experience, quality, reliability, timeliness, service, risk profiles plus initial, ongoing and disposal costs. These are all factors that can make a significant impact on benefits and costs.
- Value for money does not automatically mean the 'lowest price'.
- Value for money is a comparison of the apparent benefits of the proposed procurement activity with the whole-of-life costs.

Performance Management and Reporting

Council's performance will be monitored through industry benchmarks, as reported in council's audited annual financial statements.

Council endorses the following benchmarks:

- Operating Performance Ratio: > 0
- Own Source Operating Revenue Ratio: > 60%
- Debt Service Cover Ratio: >2x
- Rates and Annual Charges Outstanding: <10%
- Cash Expense Cover Ratio: >3 months
- Building & Infrastructure Renewals Ratio: > 100%
- Infrastructure Backlog Ratio: < 2%
- Asset Maintenance Ratio: > 100%

Financial Sustainability Report Implementation Plan

Council has previously endorsed the Financial Sustainability Report Implementation Plan (FSRIP). This report is to be updated quarterly and presented to council, through councils Quarterly Budget Review (QBR) process. The FSRIP will enable council to monitor its financial, sustainability. The latest update of the FSRIP is a supporting document to this Policy.

ASSOCIATED POLICIES AND PROCEDURES

Policy	Procedure
Long Term Financial Plan	Procurement procedures
Asset Management Policy	
Asset Management Strategy	
Workforce Management Plan	
Delivery Program	
Operational Plan and Budget	
Procurement Policy	

DEFINITIONS AND ACRONYMS

Term	Definition
Financial Sustainability	Financial sustainability is the ability of an entity to maintain financial capital and infrastructure capital over the long term. Maintaining financial capital is concerned with the ability to sustain availability of cash into the future to meet the service and infrastructure needs of the entity. Maintaining infrastructure capital is concerned with the entity's ability to provide physical assets over the long term to meet the service requirements and demand.
NOR	Net Operating Result
FSRIP	Financial Sustainability Report Implementation Plan
AMS	Asset Management Strategy
WMP	Workforce Management Plan
QBRS	Quarterly Budget Review Statement

SUPPORTING DOCUMENTATION

Document Reference	Document Description
POL-FIN-002-SD1	FSRIP July 2024 Update



POLICY DOCUMENT CONTROL TABLE

Policy #	POL-FIN-002	Policy Title	Financial Sustainability Principles Policy		
Policy Owner	Chief Financial Officer				
Policy Type	Strategic	Approval Type	Council		
Version Control					
Version Number	Modified by (position)	Modifications made	Date modified, approved, or adopted	Council Minute Number	Status
1	General Manager	Development of initial Policy	20/02/2020	2020/15	Approved
2	Acting Chief Financial Officer	Updated for Councils revised Policy format, to include the Financial Sustainability Report Implementation Plan, and to modify terminology	26 Nov 2024	2024 / 2611 / 11.1	Adopted
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