



FINANCIAL SUSTAINABILITY POLICY

1. PURPOSE

The purpose of this policy is to establish the strategic financial sustainability principles to be used by Council when developing Council's Annual Business Plan incorporating the annual budget, the Long-Term Financial Plan, and making other critical financial decisions.

2. POLICY

2.1 Background

Financial Sustainability is achieved when service and infrastructure levels and standards are delivered according to a long-term plan without the need to significantly increase rates or significantly reduce services.

Long-term financial sustainability is important if Council is to deliver the services and programs expected by the community. It is also important that community assets are maintained so that the cost does not become a burden for future ratepayers and for council to remain financially viable.

Responsible long-term financial sustainability ensures:

- Council will remain in a healthy financial position
- Public resources are distributed fairly between current and future ratepayers, and this will be achieved by maintaining an operating surplus
- Funding is made available for the maintenance, replacement and upgrade of assets to meet community expectations
- Financial outcomes are given greater stability and certainty
- Consistent delivery of essential community services and the efficient development of infrastructure
- Current and future Council rates are given a fair degree of stability and predictability.

To ensure that Council is financially sustainable, Council will regularly review its Long-Term Financial Plan and associated guiding principles. The principles will as a minimum have regard for:

- The level of funding to be applied for the purpose of maintaining existing assets
- The level of debt and serviceability that Council will hold over the period of the Long Term Financial Plan
- The operating surplus target.

2.2 Operating Surplus

Council will maintain an operating surplus over a minimum of a three year period. The operating surplus ratio is a key measure of financial sustainability. It shows the operating surplus (deficit) as a percentage of net general and other rates. Net rates do not include rate rebates and revenues from the Regional Landscape Levy. Council will aim to achieve an operating surplus ratio of 2.5 to 10% on an annual basis in accordance with Council's Long-Term Financial Plan.

Council is required to review its budget in accordance with Regulation 9 of the Local Government (Financial Management) Regulations 2011.

2.3 Funded Asset and Service Provision Costs

In the annual budget and Long-Term Financial Plan, the full cost of providing services to the community will be included. Council will provide for the maintenance, replacement and upgrade of existing assets.

Existing assets will be maintained to a level that ensures their economic life is maximised. Council will continue to provide for maintenance and/or replacement of needed assets (e.g. roads and footpaths) to ensure they can continue to provide community benefit.

Council supports the principle that existing infrastructure will be maintained to a reasonable and serviceable level as a priority over building or acquiring additional infrastructure. Building or acquiring additional infrastructure commits Council to increased maintenance responsibilities, which may be funded by either additional Council rate increases or decreased service maintenance levels.

A key measure of whether or not a Council is renewing or replacing existing non-financial assets at the same rate that its overall stock of assets is wearing out is the asset sustainability ratio. It is calculated by measuring capital expenditure on renewal or replacement of assets relative to the optimal level of such expenditure proposed in a Council's Asset Management Plans. Council will aim to have capital outlays on

renewing / replacing assets, net of proceeds from the sale of replaced assets, as greater than 90% but less than 110% of depreciation over a rolling three year period.

In addition, Council will regularly review its infrastructure and asset management plans and will specifically review the level of outstanding maintenance.

2.4 Debt Limitations

Council's level of debt will be stabilised to ensure that future generations make a contribution to assets they enjoy and to enable Council to access borrowings for capital works and the planned replacement of plant and equipment. This will be achieved by setting an upper limit of 4% of general rate income for interest payment on borrowings.

Council commits to delivering an operating surplus when additional borrowings are considered. Additional borrowing should not be undertaken unless it is in an effort to reduce maintenance expenditure or to address a high or extreme risk. In the event that borrowings are taken out while an operating deficit exists, Council will take action in the following year to operate in a surplus position.

It is appropriate for Council to have some level of debt. Intergenerational assets (such as a library, major roads etc) may be funded by a combination of short and long-term debt.

There are two further key financial indicators in relation to debt. These are the net financial liabilities ratio and the interest cover ratio. Council will aim to have a net financial liabilities ratio of between 25% and 35%. That is the amount of net financial liabilities as a percentage of the total operating income of Council. In the event that the net financial liabilities ratio is above the target range, it will be planned to return the ratio to the target range within 3 - 5 years.

2.5 Review of Assets

Existing assets will be reviewed to ascertain whether they are achieving a Strategic Plan outcome. If the assets are not providing a benefit in accordance with the Strategic Plan then Council will seek community support to use the value in the assets to fund capital or refurbishment expenditure and thus maintain community wealth.

- In acquiring new assets, the following factors should be considered:
- Council's current operating surplus / deficit position
- Any additional depreciation and maintenance cost
- Any relevant interest cost and the impact on the operating surplus / deficit position

- 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
- Discounted cash flow analysis, where appropriate.

Council assets will be reviewed on a regular basis and those assets identified as less-needed assets may be sold to raise funds for more desirable community facilities.

2.6 Council Rate Increases

Council's Annual Business Plan will have an increase in general rates that reflects the cost to Council in continuing to provide existing services and to fund the costs included in the adopted Infrastructure and Asset Management Plans and Long-Term Financial Plan and will run an assets sustainability ratio of 90% to 110% over a 3 year period.

If Council is planning to provide new or additional services then the cost of these may also need to be included as an additional rate increase.

This rate increase will take into account items such as the Consumer Price Index, Local Government Price Index and enterprise bargaining agreements, which outlines agreed growth in employee wages and salaries and any other costs to Council. This will ensure that appropriate increased levels of income cover the main drivers of Council's increasing costs.

Council will determine, after consultation with the community, whether the priority and focus of the Annual Business Plan is appropriate or whether any new initiatives or higher standards have sufficient community support to justify higher rate increases.

3. DEFINITIONS

For the purposes of this policy the following definitions apply:

Nil

4. LEGISLATIVE FRAMEWORK

There is no legislative requirement for Council to have a policy relating to this area.

[Local Government Act 1999](#)

Section 8(k) of this Act provides that Council must ensure the sustainability of its long-term Financial Performance and position.

Sections 122 and 123 of this Act provides that Council must have strategic plans, an annual business plan, annual budget and asset and infrastructure management, and long-term financial plans. This requires a level of forward planning in relation to the management of Council's funds.

4.2 Other references

Council's document including:

- a. Annual Business Plan
- b. Annual Report
- c. Infrastructure and Asset Management Plans
- d. Fees and Charges Register
- e. Long-Term Financial Plan

5. STRATEGIC PLAN/POLICY

5.1 Strategic Plan

The following strategic objectives in Council's Strategic Plan 2025 are the most relevant to this report:

Objective	Comments
Leadership	
<i>Leadership and advocacy is focused on the long term interests of the community</i>	<p>Ensuring the long-term financial sustainability of Council contributes towards delivering the aspirations for the city and community outlined in the Strategic Plan 2025.</p> <p>It is also important that community assets are maintained so that the cost does not become a burden for future ratepayers and for council to remain financially viable.</p>

5.2 Organisation Plan

Our Strategic Plan is supported by an Organisation Plan which focuses on five key themes of customer care, learning & growth, future capability and sustainable operations. The key theme most relevant to this policy is sustainable operations, in ensuring that we make consistent, informed decisions which are evidence based.

6. POLICY IMPLEMENTATION

This Policy will be implemented by the Chief Executive Officer or relevant portfolio general manager and managed in accordance with Council's scheme of delegations.

Record number	D23/16014
Responsible Manager	Manager Finance & Rating Services
Other key internal stakeholders	General Manager Strategy & Finance
Last reviewed	29/03/2023
Adoption reference	Audit and Risk Committee
Resolution number	6
Previous review dates	11/02/2020, 11/4/17, 13/5/14, 10/02/10, 10/02/09, 08/04/08
Legal requirement	NA
Due date next review	2026
Delegations	