INDEPENDENT PRICING AND REGULATORY TRIBUNAL (IPART)

Special Rate Variation Application

Wollongong City Council 2014-15

Attachment 10
WCC Financial Strategy

FINANCIAL STRATEGY
COUNCIL POLICY

ADOPTED BY COUNCIL: 17 FEBRUARY 2014

BACKGROUND

This policy has been developed in order to provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources.

OBJECTIVE

The main objectives of this policy are to –

1 Provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources

2 The Strategy will guide Council in the development of a ten year financial plan and determine financial boundaries for delivery of operational and capital plans.

3 Council will use ratepayer's money, together with other funding available, wisely to provide prioritised services and improve financial sustainability and asset management.

POLICY STATEMENT

Introduction

Wollongong City Council's Financial Strategy provides a clear direction and context for decision making that guides the allocation, management and use of its financial resources. It aims to ensure that Council remains financially stable while giving focus to financing key Council priorities through strong financial management. It acts as the catalyst for improving efficiency and releasing resources to improve frontline services and continuity.

The Financial Strategy sets the parameters within which Council agrees to operate in order to maintain accepted financial outcomes and should be viewed as an enabling Strategy that aims to provide financial stability, affordability, delivery, and value for money, over the short, medium and longer term.

Challenges

Over the next 5-20 years, Wollongong City Council will face many challenges that will require strong financial leadership and creative solutions to meet its aspirations. The key challenges faced over this period include:

1. Addressing Council's medium to long term shortfall in funding the renewal and maintenance of assets used to deliver our services.
2. Delivering organisational change to improve efficiency and assist in meeting the current financial challenge.
3. Meeting expectations from all areas including community, service users and government by ensuring standards across key services keep pace with demand and in balance with the capacity to fund these operations.
4. Financial risk associated with significant growth and development of new infrastructure and services in the West Dapto area.
5. Demands associated with the management of climate change.

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

Stability

Available Funds

Council will aim to maintain Available Funds (the unallocated portion of all future revenues) between 3.5% and 5.5% of operational revenue [pre capital].

Available funds are funds that Council has earned but not allocated to specific expenditure in the past or future. They are held as Council's savings and are used to act as a buffer against unanticipated future costs, or can be used to provide flexibility to take advantage of opportunities that may arise.

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

Debt

Council will remain a low debt user by maintaining a debt service ratio (principal and interest repayments compared to operational revenue) below 4 %.

Council will only use debt to fund capital expenditure. The term of any debt shall not exceed the life of the asset it is used to fund.

Debt will be considered as part of the Capital Budget process and 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 currently has a low level of debt reflected by a current debt service ratio of 1.71% (June 2013). Industry norms for non-growing councils suggest that the debt service ratio should remain below 10%. The debt levels permitted under this Strategy would add flexibility to future programs where warranted.

Operational Result [pre capital]

Council will develop actions, in consultation with its community, to move towards and maintain small surplus budgets in the future.

The operating result [pre capital] is considered to be one of the main indicators of the long term financial 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 continue to renew the assets, which are an integral part of that service, when required. The indicator includes accounting and engineering estimates relating to the consumption of long lived assets (depreciation) which is used in determining this result. Council has improved, and will continue to refine, its estimating process to provide even greater accuracy of the result. Council will plan based on the best information available.

Affordability

Total Funds Result

Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows. Where Available Funds level are above minimum requirements, consideration will be given to the allocation of funds to deferred asset renewals or investments that reduce future operational costs.

While Council has an operating deficit, it has been able to ensure that its funds result (cash inflows compared to cash outflows) has remained in balance. Short term stability requires the annual budget is affordable and cash is managed to ensure that payments can be made as required. By holding a level of available funds and planning for near breakeven funds results, this position can be maintained. Until an operating surplus is achieved, additional funds should be directed towards deferred asset renewals or investments that are able to reduce future operational costs.

Capital Expenditure

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.

Capital expenditure decisions need to be fully informed by understanding the impacts on future results. For example, 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 evaluation and approval process and be recognised in future estimates to aid future planning.

Rates, Fees & Charges

Following deliberation with the community, Council will propose a Revenue Policy as part of its 2014-15 Annual Plan to achieve a financially sustainable outcome by balancing the level of rates and other revenues required with the cost of services agreed to be delivered.

Business rating structures and differential pricing between categories will be considered as part of the Annual Revenue Policy development.

Council's pricing methodology will be applied consistently for all fees and charges. Fees & Charges will be reviewed on a cyclical basis to ensure compliance.

Council's revenue strategies will be considered as part of the longer term financial planning in accordance with this strategy. General rates increases are determined by the Minister for Local Government through a 'rate pegging' mechanism that has generally been in line with increases in costs to local government. Rate variations beyond this level will be linked to community aspirations for service which will be considered in conjunction with other revenue options and cost reduction opportunities.

Investment of Surplus Cash

Council will invest surplus cash in accordance with its Investment Policy.

Returns on externally restricted cash will be transferred to restricted assets and treated as capital revenue where required.

Investment of surplus funds provides additional resource to Council and assists in maintaining the real value of restricted funds held. Council, in its Investment Policy, carefully weighs up its stewardship role and prudent investment risk to optimise returns. Events in past years have highlighted the need to remain vigilant in securing public monies and making appropriate risk reward decisions.

Returns from investments vary significantly from year to year based on interest rates and the level of cash held. From a planning perspective, it is deemed prudent to ensure that Council's investment returns are not funding ongoing operations which would be a risk when returns reduce. For this reason, it is considered reasonable to apply these funds to capital (or one off projects) that do not impact on future operational costs. It is also important to understand that predicted future returns may not be realised and funding may not be available as expected.

West Dapto

Increased annual rate revenue created from subdivision in West Dapto will be restricted and only allocated to operational expenditure as the area develops. In the interim period, the annual revenue should be made available to meet infrastructure or planning requirements in the area.

West Dapto is the last significant 'green fields' development in Wollongong. It will have significant financial impacts over a period of time. It is anticipated that there will be substantial developer contributions and capital expenditure. The management of the Section 94 Plan has inherent risks due to the external pricing limits, estimating, scoping, and timing variables. Rate revenue will usually precede operational demand and assets built will require little renewal or maintenance for 7 to 15 years creating a perception of improved financial performance. Experience in developing councils has shown the negative long term impacts that the delayed expense pattern has if additional rate revenue is built into other recurrent operations.

It is considered important that a longer term view of additional revenue is given, and appropriate long term provisions are made from the commencement of the development.

Focused Delivery

Operational Services

Council's Delivery and Operational Plans will be used to:

- ***determine core and value added services,***
- ***Identify, deliver, and report on business improvement initiatives, and***
- ***set actions to improve service levels, costs, and delivery methods***

Alignment of Council services with Wollongong 2022 will continue to play an important part in determining the future needs and operations of the organisation. Assuring that the right things are done in the most efficient way, and being able to measure that performance should provide a sound platform for communicating and planning to meet agreed community expectations.

Grant Funding and other Capital Contributions

Council will actively pursue grant funding and other contributions to assist in the delivery of core services.

Operational grants and contributions for specific purposes currently provide around 3% of Council's revenue [pre capital]. Continued effort in obtaining and improving Council's success in targeted grant funding is vital to future performance and stability.

Capital Funding

Council will develop actions in consultation with its community to move towards creating annual operational funds available for capital equal to depreciation.

Council will achieve its expenditure targets for capital renewal by programming these works with sufficient flexibility to allow re-phasing, deferral and/or the introduction of other deferred renewal works as required.

Council will apply at least 85% of Operational Funds Available for Capital to the renewal of existing assets.

Technically, full funding of depreciation should mean that all existing assets will be able to be renewed at existing service levels when their life has expired. In practice, it will be unusual for many assets to be used and replaced along a planned lifecycle. In many instances, assets built today may not be required in future years, or use may change over their lives. In other instances, associated third parties may be responsible for contributing to the renewal of assets that are held in ownership by Council. For this reason, it is expected that full depreciation funding for renewal may not be required. While this is the case, it is also recognised that many assets replaced will require some component of augmentation to meet existing standards or enhance service level. Capacity is built into future resourcing to manage this inevitability.

Efficiency - Value for Money

Service Reviews

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.

It is intended that all services be reviewed on a cyclical basis over a period of time. During each review of service the service budget will be zero based in line with the agreed service levels.

Council will deliver procurement savings through improved strategic procurement and collaboration with other authorities and agencies.

SUMMARY SHEET	
Responsible Division	Finance
Date adopted by Council	17 February 2014
Date of previous adoptions	23 April 2012 23 June 2009 Investment Policy – EMC 26 February 2007 Investment Policy – EMC 14 March 2005
Date of next review	17 February 2017
Prepared by	Manager Finance
Authorised by	Director Corporate and Community Services