Warringah Council Policy

Policy No. FIN-PL 100

Financial Planning & Sustainability Policy

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 such as borrowings 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 existing service levels to residents.
- 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 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
- 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 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 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 s94A 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
- 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, s94A 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.
- Discounted cash flow analysis, where appropriate.
- Reviewing on a regular basis Council assets to 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 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 less than 10% for the Debt Service Ratio, which is a key performance indicator of the Division of Local Government.

7 Authorisation

This policy was adopted by Council on 25 June 2013

It is effective from 25 June 2013

It is due for review June 2017

8 Amendments

This policy replaces the Financial Planning Policy FIN-PL 100, adopted 31 July 2007

9 Who is responsible for implementing this Policy?

Chief Financial Officer

10 Document owner

General Manager

11 Related Council Policies

a) Allocation of Funds Obtained from the Sale of Council Real Property Policy GOV-PL 915

b) Asset Management Policy PL 550

c) Pricing Policy – Principles and Basis PL 720 Pricing

d) Surplus Road Reserve Disposal Policy GOV-PL-820

12 Legislation and references

a) Local Government Act 1993

b) Local Government (General) Regulations 2005

c) Division of Local Government Planning and Reporting Guidelines

d) Division of Local Government Planning and Reporting Manual

e) Division of Local Government Capital Expenditure Guidelines

f) PricewaterhouseCoopers National Financial Sustainability Study of Local Government Commissioned by the Australian Local Government Association November 2006

g) Local Government and Planning Ministers' Council – Local Government Financial Sustainability – Nationally Consistent Frameworks

h) Independent Inquiry into the Financial Sustainability of NSW Local Government May 2006

13 Definitions

Infrastructure Backlog - the accumulation of past shortfalls in maintenance and renewals expenditure on existing assets relative to the expenditure that was necessary to keep these assets to an acceptable fit-for-purpose service level. The dollar value of Infrastructure Backlog represents the total amount of renewal works that need to be undertaken to bring a Council's back to an acceptable fit-for-purpose service level

Capital New Expenditure - expenditure which creates a new asset providing a new or enhanced service to the Community that did not exist beforehand. As it increases service potential it may impact revenue and will increase future operating and maintenance expenditure.

Capital Renewal Expenditure - expenditure on an existing asset, which returns the service potential or the life of the asset up to that which it had originally. It is expenditure which is required periodically as it reinstates existing service potential. It may have no impact on revenue, but may reduce future operating and maintenance expenditure if completed at the appropriate time, e.g. resurfacing or re-sheeting a road network, replacing a section of a drainage network with pipes of the same capacity, resurfacing an oval. A failure to appropriately invest in renewals expenditure will result in a decline in service levels in the medium to long term.

Depreciation – is an accounting concept that measures and spreads the cost associated with the consumption of an asset over its useful life. It is a non-cash expense from an Income Statement perspective that attempts to measure the reduction in the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose value over time (in other words, they depreciate), and must be renewed or replaced once their condition falls below an acceptable fit-for-purpose service level.

While depreciation is a non-cash item from an Income Statement it should be used to fund actual capital renewal expenditure.

Inter-Generational Equity Funding - refers to 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.

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.

Life Cycle Cost – is the total cost of an asset throughout its life including planning, design, acquisition or construction, operation, maintenance, renewal and disposal costs. The principal ongoing life cycle costs comprise annual maintenance and asset consumption expense, represented by depreciation expense.

Life Cycle Expenditure – is the actual or planned annual maintenance and capital renewal expenditure incurred in providing the service in a particular year. Life Cycle Expenditure may be compared to Life Cycle Cost to give an initial indicator of life cycle sustainability.

Lifecycle Management – the management of infrastructure assets relates particularly to the maintenance and renewal stages of asset life. Early in the life of an asset, its condition deteriorates slowly and maintenance is generally not required. This is often referred to the "Do Nothing" phase of an asset's life. As the asset ages, it moves into what is known as the "Maintain" phase. Maintenance activities will need to be performed to minimise continued deterioration. As the asset moves towards the end of its life, activities are undertaken that restore the asset to a condition close to that of the original. This is referred to as the “Renewal" phase. The importance of the time for intervention for renewal is paramount. If renewal activities are not undertaken in a timely manner, the condition of the asset will deteriorate rapidly to failure, and the cost of reconstruction may be many times that of renewal activities.

Planned Maintenance – is recurrent expenditure which is periodically or regularly required as part of the anticipated schedule of works required to ensure that the asset achieves its useful life and provides the required level of service. It is expenditure, which was anticipated in determining the asset's useful life.

Planned maintenance is also known as preventative maintenance which aims to reduce the frequency of breakdown events, resulting in fewer disruptions, increased asset lifespan, financial savings and increased productivity.

Reactive Maintenance – is unplanned repair work that is carried out in response to service requests as a result of unexpected failures and breakdowns.

This is the day-to-day work that is required to correct component failures and ensure that, as far as possible, schools can continue to operate safely, effectively, with minimal disruption, despite these unpredicted faults and breakdowns.