




# Draft Financial Strategy 2020-2021

June 2020



Document Control					
Rev No	Date	Revision Details	Author	Reviewer	Approver
1	11/12/2020	Draft for public exhibition	K.Smerdon	J.Jordan	A.McMahon
DOCUMENT NOT ADOPTED					
2	20/05/2020	Modified draft for public exhibition following Council resolution on 29 January 2020 to suspend adoption of previously exhibited Financial Strategy as part of the SRV process	K.Smerdon	I.Bolton	L.Barnes
3	10/06/2020	Modified draft for public exhibition following Council resolution on 27 May 2020	K.Smerdon	I.Bolton	L.Barnes
4		Adopted by Council			

This is a DRAFT document which has been prepared for public discussion purposes and does not necessarily indicate the position of Council. Council will adopt this plan after consideration of all public submissions received and amendments have been made to address concerns where appropriate.

PO Box 492, Bega NSW 2550  
 P. (02) 6499 2222  
 F. (02) 6499 2200  
 E. [council@begavalley.nsw.gov.au](mailto:council@begavalley.nsw.gov.au)  
 W. [begavalley.nsw.gov.au](http://begavalley.nsw.gov.au)

ABN. 26 987 935 332  
 DX. 4904 Bega

# Contents \_Toc40694526

Introduction.....	3
<i>Council spending should be responsible and sustainable, aligning general revenue and expenses .....</i>	<i>4</i>
<b>ZERO-SUM FINANCING .....</b>	<b>4</b>
<b>PRIORITY OF FUNDING .....</b>	<b>4</b>
<b>COST CONTAINMENT.....</b>	<b>5</b>
<b>PRODUCTIVITY .....</b>	<b>5</b>
<b>CONTRACT MANAGEMENT .....</b>	<b>6</b>
<b>BUDGETING.....</b>	<b>6</b>
<i>Council should invest in responsible and sustainable infrastructure for the benefit of the local community.....</i>	<i>7</i>
<b>ASSET MANAGEMENT .....</b>	<b>7</b>
<b>NEW WORKS .....</b>	<b>7</b>
<b>FORWARD PLANNING.....</b>	<b>7</b>
<b>GRANT FUNDING .....</b>	<b>7</b>
<i>Councils should have effective financial and asset management, including sound policies and processes for the following:.....</i>	<i>9</i>
<b>(i) PERFORMANCE MANAGEMENT AND REPORTING .....</b>	<b>9</b>
<b>FIT FOR THE FUTURE RATIOS.....</b>	<b>9</b>
<b>FINANCIAL REPORTING.....</b>	<b>9</b>
<b>ATTRIBUTIONS .....</b>	<b>9</b>
<b>PURCHASING.....</b>	<b>9</b>
<b>(ii) ASSET MAINTENANCE AND ENCHANCEMENT .....</b>	<b>10</b>
<b>ASSET MANAGEMENT .....</b>	<b>10</b>
<b>(iii) FUNDING DECISIONS .....</b>	<b>10</b>
<b>SURPLUS LAND.....</b>	<b>10</b>
<b>RETURN ON INVESTMENT .....</b>	<b>10</b>
<b>INVESTMENTS .....</b>	<b>11</b>
<b>(iv) CAPITALISATION .....</b>	<b>11</b>
<b>CAPITALISATION .....</b>	<b>11</b>
<b>(v) RISK MANAGEMENT PRACTICES .....</b>	<b>11</b>
<b>RISK MANAGEMENT .....</b>	<b>11</b>
<i>Councils should have regard to achieving intergenerational equity.....</i>	<i>12</i>
<b>(i) POLICY DECISIONS ARE MADE AFTER CONSIDERING EFFECTS ON FUTURE GENERATIONS.....</b>	<b>12</b>
<b>BORROWINGS .....</b>	<b>12</b>
<b>(ii) THE CURRENT GENERATION FUNDS THE COST OF ITS SERVICES .....</b>	<b>12</b>
<b>INTERGENERATIONAL EQUITY .....</b>	<b>12</b>
<b>BORROWINGS.....</b>	<b>12</b>

# Introduction

Council's intent, in terms of financial management, is to continue to operate in a financially sustainable manner.

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.

The main **objectives** of this Strategy are to:

1. **Provide direction and context for decision-making in the allocation, management and use of Council's financial resources.**
2. **Guide the development of the Long-Term Financial Plan and make clear the financial parameters for the delivery of Council services.**
3. **Ensure ongoing financial sustainability of the Council through prioritisation of service delivery and asset management programs; while limiting expenditure within achievable revenue projections.**

Council's Financial Strategy provides a high-level framework for decision-making guiding the allocation, management and use of financial resources. It aims to ensure that Council remains financially stable whilst providing focus to financing key Council priorities through strong financial management. It acts as a guide for improving efficiency while maintaining its effectiveness by releasing resources to improve frontline services and manage assets.

The Financial Strategy sets the parameters within which Council agrees to operate to achieve accepted financial outcomes and should be viewed as an enabling strategy providing financial stability, affordability, delivery, and value for money, over the short, medium and longer term.

**The NSW Local Government Act 1993 Section 8B: Principles of sound financial management state the following principles should be adhered to:**

- 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.*

These principles have informed the development of this Financial Strategy.

All aspects of Council's financial planning, management and reporting will comply with the *Local Government Code of Accounting Practice and Reporting*.

## Financial Principle (a)

*Council spending should be responsible and sustainable, aligning general revenue and expenses*

Zero-Sum Financing	Priority of Funding	Cost Containment	Productivity Efficiency	Working Capital	Contract Management	Budgeting
--------------------	---------------------	------------------	-------------------------	-----------------	---------------------	-----------

### ZERO-SUM FINANCING

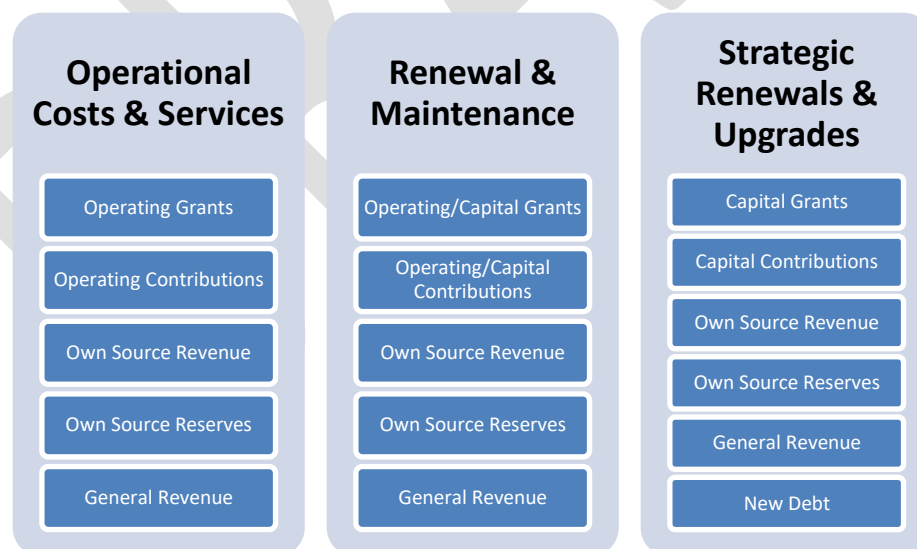
Zero-Sum Financing refers to the goal of having expenditure equal income. As opposed to a commercial entity which may choose to budget a surplus to provide shareholder equity, the Council's goal is to invest all funds collected towards the maintenance and renewal of the community's assets and services.

#### Position

Any financial proposal presented to Council or the community, will include all financial transactions, impacts, and consequences including non-operational transactions such as capital expenditure, loan drawdowns, reserve movements, principle repayments, and any other transaction that is created or impacted by the proposal under consideration. A complete and clear financial picture is to be presented so Council and the community can fully understand the financial implications of the proposal presented.

### PRIORITY OF FUNDING

Council needs to understand, and make clear to the community, how it uses various revenue streams to fund works, services and manage assets. Certain revenues are prioritised for specific activities. By stipulating these relationships, Council can determine what revenue streams need to be allocated to the areas of need and protect other revenue sources from being appropriated to unrelated activities. Council's revenues will be allocated as shown in the following diagram.



#### Position

For any new financial proposal that requires new expenditure, an equal value of new funding sources will also need to be provided to present a zero-sum proposition, or a comparable reduction identified in another expenditure area (redirect existing budget allocation). Funding sources should be considered and appropriately applied to the various areas of services, renewal and maintenance, and; renewals, upgrades and new infrastructure. For example, Council can consider borrowing money (new debt) to pay for capital expenditure but should not borrow funds for operational activities or services.

## COST CONTAINMENT

Council's budgeting process is based on individual service budgets not increasing by more than the annual rate peg, unless it is specifically approved by Council. Council can resolve to amend a particular service by Council resolution, identifying the funding source variation (new income or redirection of existing revenue) to be transparent in its deliberations on behalf of the community. Council employees may also recommend outside rate peg adjustments through the budget process or through the Quarterly Budget Review Statements (QBRs) tabled each quarter to Council. In doing so, Council employees are to identify the funding sources or possible savings to offset these costs. Councillors proposing a Notice of Motion which has funding implications are also required to indicate a funding source in the background and Motion.

### *Position*

Council should limit its expenditure budget by the rate peg for that year. Where there is a significant change to the budget a business case should be submitted to Council for approval by resolution. This provides a publicly transparent means when larger than rate peg increases are required.

## PRODUCTIVITY

A key consideration for productivity is balancing the need to be efficient without becoming less effective. Council considers life-cycle costs of service and asset management when making financial decisions. Council's productivity position is that Council considers getting the job done properly even if that means spending more in the short-term.

### *Position*

Council is to consider the full life-cycle cost when assessing a new service or project. Council accepts that what may be cost effective over the life-cycle of a service or project may not come at the lowest, short-term cost. Simply this means we will do the job properly in the first instance rather than undertaking lower cost, lower quality works which may, in the future incur additional lifecycle costs.

## CONTRACT MANAGEMENT

Nearly two thirds of every dollar spent by Council is spent through external suppliers. It is important Council manage its contractual obligations with diligence and precision. It is equally important Council ensures its suppliers and contractors are managed appropriately. Council's contract management position provides a clear mandate that any savings made through improved management of contracts be reported to Council for reallocating to priority services or activities. This occurs through the QBRs or specific reports.

### *Position*

When a saving is made on a contract for supply or service, it is to be reported to Council for Council to determine where funds are to be reallocated. A saving on a contract is defined as being awarded or completed for less than the budget estimate. Savings should not be automatically rolled into the budget for use in the functional area where the saving was generated.

## BUDGETING

Council's Financial Management Policy (6.06) states that Council utilises a comprehensive budgeting system that budgets for operating and capital transactions. The objective is to ensure all known income items and expenditures are identified during the budget development process with the aim of a zero-based budget approach.

### *Position*

Council's budget development will form part of its annual operational planning cycle and link to the Integrated Planning and Reporting (IPR) cycle. It will consider the directions resolved by Council in relation to providing service levels, the requirements of all mandatory programs and requirements and be developed in line with the requirements of funding provided by other levels of government.

The budget development will be drafted by staff. Councillors will be provided with support and tools to be able to actively participate in all aspects of the budget development.

The process will be transparent and clearly present Council's current and projected financial position. Council will abide by the QBRs legislation under the *NSW Local Government Act 1993*. All variances are to be presented to the Council and the community in a manner that is clear and easy to understand.

## Financial Principle (b)

*Council should invest in responsible and sustainable infrastructure for the benefit of the local community*Asset  
Management

New Works

Forward  
Planning

Grant Funding

**ASSET MANAGEMENT**

Council's Asset Management Strategy explains Council's intentions in relation to the expenditure of funds towards the maintenance and renewal of community infrastructure. The balancing of Asset Management Plans, Long-Term Financial Plan and strategic workforce plans are the cornerstone of a sustainably managed Council.

**Position**

Council's finances must be planned in conjunction with Council's Asset Management Plans; Council's Asset Management Plans must be planned in conjunction with Council's Long-Term Financial Plan. The two documents are intrinsically linked.

**NEW WORKS**

Council is committed to operating current level of service within current level of funding. Council aims to work with the community to determine any new services/assets it wants and correspondingly, how the community want to pay for the new services/assets.

**Position**

Any new project or any new capital upgrade proposed after the adoption of the operating budget should be presented to Council. This allows time for employees and Councillors to view and understand the projects and impact on the agreed delivery program and to ensure the correct financial priorities are applied. *New Works* must be presented to Council with a full cost benefit analysis across the project life-cycle so that clear and transparent decisions can be made and associated impacts on other services are considered.

**FORWARD PLANNING**

The IPR process allows Council to clearly prioritise projects to progress during each term of Council to deliver and to forward plan to have projects "shovel" ready. This should be an outcome of each IPR cycle.

**Position**

Council will determine its priority projects each four-year electoral cycle as part of the IPR process. These projects will be documented in the Council's Prospectus and utilised to leverage external funding. To maximise success, the projects outlined in the prospectus will be scoped, if endorsed, have business cases developed, designed and relevant approvals will be progressed. The contribution from Council towards delivery of the projects will be included in the business case and include financial and in-kind support.

**GRANT FUNDING**

Council is committed to continuing to leverage as much external funding for works and services as possible to minimise impacts on ratepayers.

**Position**

The Federal and State Government have progressively moved to project funding models which require well developed proposals. Council will continue to pursue external funding that is in line with Council's agreed directions and target key projects outlined in the Council's Prospectus. Council should not look to apply for funding or accept funding that does not align with its adopted projects unless the funding provides for current and future life-cycle expenditure and; will accelerate the delivery of long-term goals documented in the Community Strategic Plan.

DRAFT

## Financial Principle (c)

*Councils should have effective financial and asset management, including sound policies and processes for the following:*

Performance  
Management  
and Reporting

Asset  
Maintenance and  
Enhancement

Funding  
Decisions

Capitalisation

Risk  
Management  
Practices

### (i) PERFORMANCE MANAGEMENT AND REPORTING

#### FIT FOR THE FUTURE RATIOS

Council was deemed 'Fit' under the State Government assessment process and Council is committed to continuing to prioritise achieving the ratios which form part of this assessment into the future.

#### Position

Council is to plan for and strive to achieve the benchmarks set out within the local government financial sustainability ratios.

#### FINANCIAL REPORTING (clear and plain English)

There are many statutory obligations that Council must adhere to in relation to Financial Reporting. Council has resolved that all financial reports are to be presented as clearly as possible using plain English and feature clear definitions and messages. Council will meet all requirements of the Local Government Code of Accounting Practice and Financial Reporting.

#### Position

All financial reports are to be presented to Council and the community in plain English with clear definitions to provide information that is simple and easy for the public to understand.

#### ATTRIBUTIONS

Council has three separate, discreet functions (General Fund, Waste Fund, Water and Sewer Fund). Each operates independently but are all interrelated. It can be very difficult for the community to understand the interrelationship between the three functions and the legislative separation which applies.

It is important to be able to present the true cost, in both financial and resource terms, of each service. Attribution is an approach implemented to apply the true financial cost of each service

#### Position

Council is aiming to clearly articulate the true cost of delivery of each discreet service area.

#### PURCHASING

Council's Procurement of Assets and Services Policy (6.08) outlines how Council employees are permitted to acquire goods, works and services on behalf of Council. The policy and associated procedures provide guidance on how suppliers are selected, how the delegation of authority to acquire goods, works or services is applied to employees, and how acquisitions are to be recorded and acquitted. The policy also states that Council recognises its role as a significant purchaser on behalf of the community, and given that role, whilst complying with relevant legislation, will strive to achieve value for money, ensure high standards of fairness and transparency, ensure cost effective expenditure and encourage stimulation of the local economy, wherever possible.

**Position**

Council expects that the Procurement Policy, associated procedures and Tendering Guidelines will be implemented for all tendering activities. Council also expects that wherever possible, overall community benefit is maximised through encouragement, support and opportunity for local suppliers. Council is committed to ensuring effective expenditure through achieving the desired results at the best possible price.

**(ii) ASSET MAINTENANCE AND ENCHANCEMENT****ASSET MANAGEMENT**

Council has a comprehensive asset management framework. Through the Asset Management Strategy and associated policies, procedures and plans, Council has developed a detailed understanding of its asset base and how it intends to maintain and renew those assets into the future.

**Position**

Council's finances must be planned in conjunction with Council's Asset Management Plan. Council's Asset Management Plan must be planned in conjunction with Council's Long-Term Financial Plan. The two documents are intrinsically linked.

**(iii) FUNDING DECISIONS****SURPLUS LAND**

Council has commenced an assessment of its current holdings of land to determine the most appropriate course of action regarding specific parcels. The activation of land, or the possible disposal of land may enable the reallocation of funds towards priority projects. Activation means through the lease or licensing of that property in turn for rental consideration. Disposal means the sale of that property for market value. Legislation requires that all property matters regarding activation and disposal must be actioned under resolution of Council, not by officers of Council.

Council's practice requires any proceeds from the disposal of land assets be reserved for future allocation by Council. Funds obtained through the activation of land assets (lease income) will be allocated to the maintenance and upkeep of those assets identified by Council in its asset management plans. This approach ensures that Council's assets are properly maintained and renewed. If a property is disposed of, the funds can be used by Council for any other capital project as a one-off funding source.

**Position**

Council has resolved that a range of its land holdings be activated appropriately with any rental consideration being utilised to maintain and renew Council's building assets. The sale of any surplus land or asset, which can only be initiated by a resolution of Council, may be allocated to capital projects at Council's discretion. Funds realised are placed in a Reserve for allocation by Council resolution and will give regard to Council's Asset Management Strategy.

**RETURN ON INVESTMENT**

Council has an objective that all services provided to the community must demonstrate a return on investment. In some cases, this return is monetary, in other instances this is measured in economic, asset provision, social or environmental value. In all cases Council should be able to demonstrate that the value exceeds the cost. Services that cannot demonstrate a positive return on investment need to be reconsidered or reviewed.

**Position**

Council expects that all services and transactions demonstrate a positive return on investment for the community. The measure of a positive return does not necessarily have to equal a monetary return. An economic, social or environmental return is acceptable.

**INVESTMENTS**

Whilst Council operates under a Ministerial Order relating to the placing of any funds under investment, the Council has some discretion as to how specifically the Council's money is invested. Council's Cash management and investment Strategy details the Council's appetite for investment, risk versus returns as well as the rating of the investment organisation. Considerations such as the length of investment, the value of individual investments, the selection criteria of where the investments are placed are all stipulated under the Policy.

**Position**

Council has a separate Investment Policy adopted by Council. For the purpose of this strategy Council's position on investments is to maximise the return on the community's investment while at the same time accepting that investment risk appetite is low.

**(iv) CAPITALISATION****CAPITALISATION**

Capitalisation relates to the treatment of asset values recognised in the current financial year, that is, whether they are capitalised or expensed. When an asset group is revalued, the net effect of (expensed) maintenance work will be reflected in the asset condition and a new value assigned to the asset.

**Position**

Council will account for all non-current physical assets owned or managed by Council in accordance with the relevant Accounting Standards and State Government Guidelines. Council takes guidance for the capitalisation of assets from the asset management plans for each asset group.

Council will develop a fully integrated finance and asset system with an asset capitalisation policy. The procedure will define which assets are capitalised and describe the assets for accounting and reporting purposes.

**(v) RISK MANAGEMENT PRACTICES****RISK MANAGEMENT**

Council's Fraud and Corruption Policy (6.18) and associated procedures deal with potential fraud and corruption risks as well as the controls to mitigate those risks. The Enterprise Risk Management Framework includes items such as robust financial systems with clear controls that are monitored and maintained. It also covers Council's audit functions, both internal and external.

It is Council's objective to remain fraud and corruption free and to obtain an unqualified audit from its independent auditors each year.

**Position**

Council endorses robust internal and external audit processes and has no tolerance for fraudulent or corrupt activities.

## Financial Principle (d)

*Councils should have regard to achieving intergenerational equity*

Policy decisions are made  
after considering effects  
on future generations

The current generation  
funds the costs of its  
services

**(i) POLICY DECISIONS ARE MADE AFTER CONSIDERING EFFECTS ON FUTURE GENERATIONS****BORROWINGS**

Council's priority is that new debt should only be considered for new or significantly upgraded assets. Only a resolution of Council can authorise the application for borrowings and acceptance of new debt. The 'Fit for the Future' target is a Debt Service Ratio below 20 per cent. Council's aim is to remain below this threshold; that is.

All new debt is modelled through Council's Long-Term Financial Plan to ensure that it can be afforded by the current and future ratepayers of the Bega Valley Shire.

**Position**

New debt should only be utilised on new or significantly upgraded asset projects and only after all other funding sources have been exhausted. The term of any new debt should be linked to the life of the asset being funded and is always repaid on a principle and interest basis.

**(ii) THE CURRENT GENERATION FUNDS THE COST OF ITS SERVICES****INTERGENERATIONAL EQUITY**

New or significantly upgraded infrastructure will service the community for many generations. It is appropriate that for some asset's loans be used as a funding source and that the payments are applied to current and future ratepayers who will benefit from the asset.

**Position**

Council will consider the funding allocation for each new or significantly upgraded infrastructure projects including loans in each budget cycle and the portion that should be borne by current ratepayers and any portion that should be funded by future ratepayers. These are the projects that can be potentially be funded by loans.

**BORROWINGS**

Debt can only be used to fund new or significantly upgraded assets and should not be used to fund ongoing service delivery.

**Position**

New debt will only be utilised on new or significantly upgraded capital projects after all other funding sources have been considered. When considering loan borrowings, the financial sustainability ratio is a guide and the capacity to repay the principal and interest must be calculated into the decision making and Long Term Financial Plan.