

Draft Financial Strategy 2020-21

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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, to develop, determine and make clear the financial parameters in place for the delivery of Council services.**
3. **Ensure the ongoing financial sustainability of the Council through the prioritisation of service delivery and asset management programs, while limiting expenditure to within achievable revenue projections.**

Council's Financial Strategy provides a high level framework for decision-making that guides the allocation, management and use of its financial resources. It aims to ensure that Council remains financially stable while providing focus to financing key Council priorities through strong financial management. It acts as the catalyst 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 that aims to provide 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, and been incorporated into, the development of Council's Financial Strategy.

Council will also ensure all aspects of its financial planning, management and reporting are in line 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

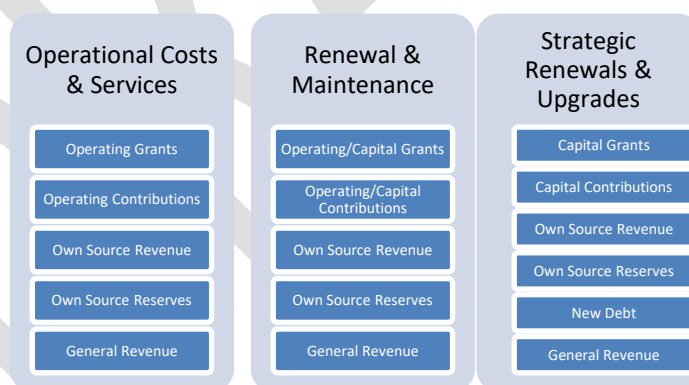
Zero-Sum Financing refers to the goal of having expenditure equal income. As opposed to a commercial entity which may choose to budget a surplus to provide shareholder equity, the Council's goal is to invest all funds collected towards the maintenance and renewal of the community's assets and services.

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 its 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 aligned with 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. The 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 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, 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 for further consideration. In doing so, Council employees should also 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 for 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 the life-cycle costs of service and asset management when making financial decisions. Council's productivity position ensures 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. However, doing the job properly in the first instance is better for the community 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 for less than the budget estimate. Savings should not to 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 being 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 take into account 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 with Councillors provided 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. In the future, consideration will be given in the next IPR cycle for more direct community involvement in the Council budget process. Council is to 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**

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

Position

Council's finances must be planned in conjunction with the Council 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 (Usually Grant funded projects)

Council is committed to operating its current level of service within its 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* projects must be presented to Council with a full cost benefit analysis so that clear and transparent decisions can be made and any associated impacts on other services.

FORWARD PLANNING

The IPR process allows Council to clearly prioritise projects to progress for delivery and to forward plan to ensure projects are "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 included in the Council's Prospectus and utilised to leverage funding. The projects outlined in the prospectus will be scoped, designed, have business cases developed and relevant approvals will be progressed to maximise success.

GRANT FUNDING

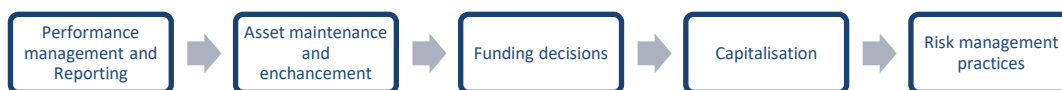
Council is committed to continuing to leverage as much external funding for works and services as possible to minimise impacts on current ratepayers.

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 targeted for 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 expenditure.

Financial Principle (c)

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

**(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 as 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 featuring 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 incorporating Waste, Water and Sewer) each operating independently but 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 be able 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 on behalf of Council. The policy and associated procedures provides guidance on how suppliers are chosen, how the delegation of authority to acquire goods is applied to employees, and how acquisitions are to be recorded and acquitted. The policy also states that while price is still the overriding consideration in determining where Council acquires its goods, several secondary factors are also important. Considerations such as local suppliers, life-cycle costs, experience and reliability among others are to be factored into the decision-making process on supplier selection.

Position

Council expects that relevant Procurement Policy and Procedure and Tender Guidelines will be implemented for all relevant transactions. Council also expects that local suppliers be given the opportunity to bid for Council work in all transactions. Council accepts that the cheapest supplier may not represent the best value for the community and is willing to accept the best value supply as opposed to the cheapest.

(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 the Council 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. By activation Council means through the lease or licensing of that property in turn for rental consideration. By disposal Council 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 as per Council's discretion. Funds realised are placed in a Reserve for allocation by Council resolution.

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

While 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 Investment Policy 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 hence 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 and linked procedure regarding which assets are capitalised, definitions of 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 mitigating responses to those risks. This framework deals with 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 a robust internal and external audit process and has no tolerance for fraudulent or corrupt activities.

Financial Principle (d)

Councils should have regard to achieving intergenerational equity, including ensuring the following:

Policy decisions are made after considering effects on future generations



The current generation funds the costs of its services

(i) POLICY DECISIONS 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. There is 'Fit for the Future' criteria which looks at the debt levels of Councils. Council's aim is to remain below this threshold; that is a Debt Service Ratio below 20 per cent.

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 assets 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 project including loans in each budget cycle and determine the portion that should be borne by current ratepayers and any portion that should be funded by current and future ratepayers and 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.