NAMBUCCA SHIRE COUNCIL
FINANCIAL SUSTAINABILITY
POLICY No: CS 07

Our Vision

Nambucca Valley ~ Living at its best

Our Mission Statement

'The Nambucca Valley will value and protect its natural environment, maintain its assets and infrastructure and develop opportunities for its people.'

1.0 Policy objective

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

The policy also establishes a set of Key Financial Indicators (KFI'S) that will guide Council's financial performance in the short to medium term plus establish a framework for the long term financial sustainability of Council.

2.0 Related legislation/policies

There is no legislative requirement for Council to have a policy on financial sustainability.
The following relate to this policy:

Code of Accounting Practice and Financial Reporting
Local Government Act 1993 and Regulations 2005
Annual Report
Asset Management Plans
Fees and Charges
Long Term Financial Plan
Australian Accounting Standards
Office of Local Government Financial criteria
Various other financial policies adopted by Council

3.0 Definitions

Financial Sustainability A local council is sustainable if its infrastructure capital and financial capital is able to be maintained over the long term. Financial sustainability for local councils is being able to manage likely developments and unexpected financial shocks in future periods without having at some time to introduce economically significant or socially destabilising revenue or expenditure adjustments. (IPWEA Australian Infrastructure Financial Management Manual – 2015).

Asset Renewals The cost of renewal shall include renewal and major rehabilitation works. Renewal shall be defined as the works required to replace existing assets or facilities with assets or facilities of equivalent capacity or performance capability. Where renewal is undertaken, provision may be made to provide the modern engineering equivalent replacement asset (MEERA) and the estimate of gross replacement cost calculated accordingly. Renewal under the

MEERA concept may address functional improvements and network deficiency as part of the work. (Local Government Code of Accounting Practice and Financial Reporting Update 26 p. C-18.)

Asset Upgrades Expenditure, which replaces a previously existing asset with enhanced capability or function, where an option existed for replacement without the enhanced capability or functionality. (IPWEA Australian Infrastructure Financial Management Manual –2015.)

4.0 Policy statement

4.1 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.

4.2 Operating Surplus

The Operating Performance ratio measures Council's achievement of containing operating expenditure within operating revenue. Council should not be recording recurring operating deficits, or funding operating results from capital revenues.

Other financial indicators include the Unrestricted Current Ratio which measures Council's ability to meet its short term liabilities with its short term assets and the Cash Expense Cover Ratio which indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

4.3 Funded Asset and Service Provision Costs

In the annual Operational Plan and Long-Term Financial Plan, the full cost of providing services to the community will be included. Council will provide for the maintenance, renewal 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.

When Council makes any grant application an assessment must be made on the ability of Council to match any grant funding and also the ongoing maintenance costs of any new infrastructure. The Finance section must be consulted prior to any grant application being submitted so that the total combined impact of all grant applications can be assessed rather than grant applications being assessed in isolation by individual managers.

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 Building and Infrastructure Renewal ratio. It is calculated by measuring capital expenditure on renewal or replacement of assets relative to the recorded rate of depreciation for the same period.

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 four year period.

In addition, Council will regularly review its infrastructure and asset management plans and will specifically review the level of outstanding maintenance to ensure it is not adding to the infrastructure backlog.

4.4 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 for the Debt Service Ratio of 12% for General Fund and 20% for Water and Sewer Fund of general operating revenue (less capital grants and contributions) for interest and principal repayments on borrowings.

Another ratio to be utilised is the debt service cover ratio which measures the operating result to service debt including principal and interest payments. This ratio should be greater than two times.

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, bridge, major roads etc.) may be funded by a combination of short and long-term debt.

4.5 Review of Assets

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.

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.

4.6 Council Rate Increases

Council's Community Strategic Plan will usually have an increase in general rates that reflect the IPART Rate peg limit and the cost to Council in continuing to provide existing services and any additional identified costs included in the adopted Delivery Program and Resourcing Strategy.

However, if Council is planning to provide new or additional services then it may be required to make application to IPART for a rate increase to fund the additional service or capital works.

This rate increase will take into account items such as the Consumer Price Index, Local Government Price Index utilised by IPART, Local Government State Award increases 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 Community Strategic Plan is appropriate or whether any new initiatives or higher standards have sufficient community support to justify rate increases above the rate peg limit.

5.0 History

New Policy

Department:	Corporate Services	**Last Reviewed**	**Resolution Number**
Policy Category	Organisation		
Endorsed By:	CFO		
Approval Authority	General Manager		
Policy Owner	Finance		
Contact Officer	CFO		
Document No.	13930/2019		
First Adopted	24 April 2019		
Resolution No:	192/19		
Review Date:	December 2020		

KEY FINANCIAL INDICATORS

FINANCIAL INDICATOR	COUNCIL'S KFI GOAL	OLG BENCHMARK
1. Operational Liquidity (short term focus)		
1.1 Unrestricted Current Ratio – unrestricted current assets divided by unrestricted current liabilities. Purpose – this is a measure of Council's ability to meet its short term liabilities with its short term assets.	>1.5:1	>1.5:1
1.2 Rates and Annual Charges Outstanding Ratio – rates & annual charges outstanding divided by rates & annual charges collectible. Purpose – this measure assesses the impact of uncollected rates & annual charges on Council's liquidity and the adequacy of Council's debt recovery efforts.	<= 5%	< 10%
1.3 Cash Expense Cover Ratio – Current Year's Cash and Cash Equivalents and all Term Deposits divided by Payments from cash flow of operating and financing activities, multiplied by 12. Purpose - This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.	Consolidated Funds: Minimum >3 months	Consolidated Funds: Minimum >3 months
1.4 Working Funds as per LG Solutions methodology. Purpose – Minimum funds to meet budget "shocks".	$1,300,000	None
2. Fiscal Responsibility (Council elected term focus)		
2.1 Operating Performance Ratio – total continuing operating revenue excluding capital grants and contributions less operating expenses, divided by total continuing operating revenue. Total continuing operating revenue excludes fair value adjustments and reversal of revaluation decrements, net gain/ (loss) on sale of assets and the net share of interests in joint ventures & associates. Purpose - This ratio measures Council's achievement of containing operating expenditure within operating revenue. Councils should not be recording recurring operating deficits, or funding operating results from capital revenues.	All Funds: Minimum >0%	All Funds: Minimum >0%

FINANCIAL INDICATOR	COUNCIL'S KFI GOAL	OLG BENCHMARK
2.2 Own Source Revenue Ratio – total continuing operating revenue (excluding ALL grants & contributions), divided by total continuing operating revenue inclusive of all grants and contributions. Total continuing operating revenue excludes fair value adjustments and reversal of revaluation decrements, net gain/ (loss) on sale of assets and the net share of interests in joint ventures & associates. Purpose - This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions. A council's financial flexibility improves as its own source revenue increases.	All Funds: Minimum >60%	All Funds: Minimum >60%
2.3 Debt Service Cover Ratio – Operating result before capital (excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets, interest expense, depreciation / impairment / amortization, and the net share of interests in joint ventures & associates), divided by Principal Repayments (from the Statement of Cash Flows) plus borrowing costs (from the Income Statement). Purpose - This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.	All Funds: Minimum >2x	All Funds: Minimum >2x
2.4 Debt Service Ratio - Cost of debt service (interest expense & principal repayments) divided by total continuing operating revenue (excluding capital grants and contributions). Purpose – A Council with a low or zero level of debt may incorrectly place the funding burden on current ratepayers when in fact it could be spread across generations, who also benefit from the assets. High Levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.	General Fund <12%, Water & Sewer Fund <=20%	>0%<=20%

FINANCIAL INDICATOR	COUNCIL'S KFI GOAL	OLG BENCHMARK
2.5 Real Operating Expenditure Per Capita – Operating expenditure indexed by the Local Government Cost Index, divided by population of Council area. There must be a demonstrated decrease in the ratio over time. Purpose - Changes in real operating expenditure per capita are considered to assess how effectively Councils: • can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and • can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs) Assuming that service levels remain constant, a decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).	General Fund only - A decline in ratio over 5 years	Demonstrate savings over 5 years
3. Financial Sustainability (Long term intergenerational focus)		
3.1 Building & Infrastructure Renewal Ratio – expenditure on building and infrastructure asset renewals divided by depreciation, amortisation & impairment for building and infrastructure assets. Purpose – this measure assesses the rate at which building & infrastructure assets are being renewed & upgraded against the rate at which they are depreciating.	All Funds Between >90% and <110%	>100%
3.2 Infrastructure Backlog Ratio - Estimated Cost to bring Assets to a Satisfactory Condition, divided by net carrying amount of infrastructure assets. Purpose - This ratio shows what proportion the infrastructure backlog is against the total value of a council's infrastructure.	All Funds Maximum <2%	< 2%
3.3 Asset Maintenance Ratio - Actual Asset Maintenance divided by Required Asset Maintenance. Purpose - Compares actual vs required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds that year to halt the Infrastructure Backlog from growing.	All Funds: Minimum >100%	>100%