

10.6 Policy (Final) - Financial Planning

POLICY NAME: FINANCIAL PLANNING (DRAFT)
POLICY REF: TBA
MEETING ADOPTED: TBA
Resolution No. TBA
POLICY HISTORY:



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OBJECTIVE

The purpose of this policy is to establish a set of financial indicators 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.

BACKGROUND

As a public sector organisation it is essential that Council manage its finances in a prudent and responsible manner. Also public sector organisations do not operate on a standard operating profit basis as many services are provided at a net cost to the community.

Therefore it is important that Council endorse a range of financial indicators that can be reported to the public on a regular basis and that will assist Council in managing its finances in the short, medium and long term.

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 governments 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 income or expenditure adjustments. (Source: IPWEA Australian Infrastructure Financial Management Guidelines 2009).
Assets Renewals	Expenditure on an existing asset that returns the service potential or life of the asset, to that which it was originally intended. As it reinstates existing service potential it has no impact on revenue, but may reduce future operating and maintenance expenditure if completed in the optimum time. (Source: IPWEA Australian Infrastructure Financial Management Guidelines 2009).
Asset Upgrades	Upgrading of an existing asset to provide a higher level of service, increasing the life of the asset beyond the life that was originally intended. (Source: IPWEA Australian Infrastructure Financial Management Guidelines 2009).

SCOPE OF POLICY

This policy applies to:

- Council employees
- Councillors

RELATED DOCUMENTATION

Related documents, policies and legislation:

- Local Government Act 1993;
- Local Government General Regulation 2005;
- Local Government Code of Accounting Practice and Financial Reporting; and
- Australian Accounting Standards

POLICY

PART 1 - POLICY STATEMENT

Council has a fiduciary responsibility to the community to manage our finances and assets over the long term that balances the community's needs with the long term financial sustainability of Council. The key performance indicators established by this Policy will guide Council with both its short term and long term financial planning and decision making.

The financial indicators adopted by Council measure Council's financial position and its financial performance. The framework* for these indicators is tabled below.

*Source: LG Solutions Pty Ltd – April 2010 Newsletter

Table 1

FINANCIAL INDICATOR GOAL			INDICATOR TYPE	
Goal	Achievability	Time Horizon	Financial Position Indicator	Financial Performance Indicator
1. Operational Liquidity	Short Term	Day to Day	Yes	No
2. Fiscal Responsibility	Medium Term	Council's Elected Term	Yes	Yes
3. Financial Sustainability	Long Term	Inter-Generational	Yes	Yes

PART 2 - FINANCIAL PERFORMANCE INDICATORS & BENCHMARKS

Council's benchmark goals for the performance indicators are as follows:

- 1.1 **Unrestricted Current Ratio** - Council aims to maintain a Consolidated Unrestricted Current Ratio above 2:1.
- 1.2 **Rates and Annual Charges Outstanding Ratio** - Council aims to maintain a Rates and Annual Charges Outstanding Ratio of less than 6% for Consolidated, General, Water and Sewer Funds'.
- 1.3 **Available Working Capital / Funds** - Council aims to maintain the General Fund Available Working Capital / Funds above \$3 million and Water and Sewer above \$1 million each.

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- 2.1 **Operating Balance Ratio** - Councils aim to maintain the Operating Balance Ratio at better than minus 10% for Consolidated, General, Water and Sewer Funds.
 - 2.2 **Debt Service Ratio** - Council aims to maintain a Debt Service Ratio at less than 12% for Consolidated, General, Water and Sewer Funds and new loans have identified repayment funding sources.
 - 2.3 **Rates and Annual Charges Coverage Ratio** - Council aims to maintain a Rates and Annual Charges Coverage Ratio of greater than 40% for Consolidated, General, Water and Sewer Funds.
 - 2.4 **Outstanding Employee Leave Entitlements Ratio** - Council aims to maintain a Consolidated Outstanding Employee Leave Entitlements Ratio of less than 47%.
 - 3.1 **Asset Consumption Ratio** - Councils aim to maintain an Asset Consumption Ratio of greater than 40% for Consolidated, General, Water and Sewer Funds.
 - 3.2 **Net Financial Liabilities Ratio** - Councils aim to maintain a Net Financial Liabilities Ratio of less than 60% for Consolidated, General, Water and Sewer Funds.

The financial indicators tabled below have been referenced from Note 13 of the Local Government Code of Accounting Practice and Financial Reporting, the LGMA Health Check, the IPWEA Australian Infrastructure Financial Management Guidelines, the NSW IPART report Revenue Framework for Local Government, and the Queensland LG Act.

FINANCIAL INDICATORS	BENCHMARK GOAL	INDICATOR TYPE	
		Financial Position	Financial Performance
1. Operational Liquidity - Short Term Focus			
1.1 Unrestricted Current Ratio (General Fund Only)			
Unrestricted current assets divided by unrestricted current liabilities. Measured as a ratio. (This ratio is as per Note 13) <u>Purpose</u> - this is a measure of Council's ability to meet its short term liabilities with its short term assets.	> 2:1 (Igm Health Check Recc)	Yes	No
1.2 Rates & Annual Charges Outstanding Ratio			
Rates and annual charges outstanding divided by rates and annual charges collectible. Measured as a percentage. (This ratio is as per Note 13) <u>Purpose</u> - this measure assesses the impact of uncollected rates and charges on Council's liquidity and the adequacy of Council's debt recovery efforts.	< 6% (Igm Health Check Recc)	Yes	No
1.3 Available Working Funds			
General Fund	\$3,000	Yes	No
Sewer Fund	\$1,000	Yes	No
Water Fund	\$1,000	Yes	No
Total of cash, investments, receivables and inventory assets less total payables liabilities, externally restricted receivables, internally and externally restricted investments and real estate inventory. To be greater than 5% of expenses (excl depreciation and wages) plus 2% of Income (excl rates & annual charges and grants & contributions) plus core inventory and receivables balance. Measured in \$000's. <u>Purpose</u> - shows Council's short term ability to cover short term financial shocks whether they be reductions in anticipated revenues or unplanned additional expenditure	BSC calculated)		

FINANCIAL INDICATORS	BENCHMARK GOAL	INDICATOR TYPE	
		Financial Position	Financial Performance
2. Fiscal responsibility - Council elected term focus			
<p>2.1 Operating Balance Ratio Net operating result from continuing operations (excluding capital items) as a percentage of operating revenue (excluding capital items). Measured as a percentage. <u>Purpose</u> - measures whether the Council is sustainable in terms of its operating result. Council should not be recording recurring operating deficits or funding operating results from capital revenues.</p>	< -10% (PART Recc)	No	Yes
<p>2.2 Debt Service Ratio Loan principal & interest payments divided by revenue from continuing operations excluding capital items and specific purpose grants and contributions. (as per Note 13). Measured as a percentage. <u>Purpose</u> - a measure of whether Council has excessive debt servicing costs, relative to operating revenue.</p>	< 12% (Igm a Health Check Recc)	No	Yes
<p>2.3 Rates & Annual Charges Coverage Ratio Rates & annual charges levied divided by total operating revenue from continuing operations. (as per Note 13). Measured as a percentage. <u>Purpose</u> - this is an indicator of a Council's financial self-sufficiency. It indicates how a Council covers its operating costs through its taxation revenue. Councils that have a low ratio tend to more reliant on grants and generally have lower flexibility to vary these charges.</p>	> 40% (PART Recc)	No	Yes
<p>2.4 Outstanding Employee Leave Entitlements Ratio Total of outstanding employee leave entitlements divided by total wages and salaries paid. Measured as a percentage. <u>Purpose</u> - measures the Council's leave liabilities as a percentage of total wages and salaries. Shows possible excessive build up of liabilities.</p>	< 47% (Calc from award conditions)	Yes	No
<p>2.5 Cost efficiency per resident Total operating costs divided by Shire population. Measured in \$'s. <u>Purpose</u> - measures the cost of Council's operations on a per head basis.</p>	For information only	No	Yes

FINANCIAL INDICATORS	BENCHMARK GOAL	INDICATOR TYPE	
		Financial Position	Financial Performance
3. Financial Sustainability - Long term intergenerational focus			
3.1 Asset Consumption Ratio Depreciated replacement cost of assets divided by current replacement cost of depreciable assets. Measured as a percentage. <u>Purpose</u> - this ratio seeks to highlight the aged condition of Council's physical assets. The indicator shows the depreciated replacement cost of the assets relative to their "as new" (replacement) value.	>40% (IPWEA Rec)	Yes	Yes
3.2 Net Financial Liabilities Ratio Total liabilities less current assets divided by total operating revenues. Measured as a percentage. <u>Purpose</u> - measures the long term debt position of Council and Council's ability to meet its financial obligations from revenue streams.	< 60% (Qld LG Act recc)	Yes	Yes

REPORTING

The financial indicators included in this Policy will be reported annually to Council after completion of the Annual Statements. Where Council has not achieved the benchmark a strategy will be recommended such that the benchmark is achieved in the future.

REVIEW

This policy shall be reviewed at least every four years to ensure it meets relevant legislation and benchmarks are relevant.