

Financial planning

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Author	Corporate Financial Planner
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Objective	5.1 We will have a strong, accountable and representative Government
Strategy	5.1.6 Ensure decisions reflect the long-term interest of the community and support financial and infrastructure sustainability

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1. Purpose

The purpose of this policy is to establish 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. 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 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.

3. Background/legislative requirements

- Local Government Act 1993
- Local Government General Regulation 2005
- Office of Local Government (OLG) Local Government Code of Accounting Practice and Financial Reporting as updated
- Australian Accounting Standards
- Office of Local Government Fit For The Future Financial criteria reassessment Round 2 guidelines – August 2016

4. Policy statement

Council has a fiduciary responsibility to the community to manage council finances and assets over the long term that balances their needs with the long term financial sustainability of Council. The key financial indicators established by this policy will guide Council with both its short term and long term financial planning and decision making, including the impacts of funding options for infrastructure assets, such as borrowings.

The financial indicators adopted by Council measure Council's financial position and its financial performance. The framework* for these indicators is tabled below and are categorised into (i) Operational Liquidity (Short Term), (ii) Fiscal Responsibility (Medium Term) and (iii) Financial Sustainability (Long Term).

* LG Solutions P/L – April 2010 "Debits & Credits" Newsletter

KEY FINANCIAL INDICATOR GOAL			KEY FINANCIAL 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

5. Financial performance indicators and benchmark goals

The financial indicators tabled below have been referenced from Note 13 and Special Schedule 7 of Update 26 of the OLG Local Government Code of Accounting Practice & Financial Reporting, the OLG's Fit for the Future sustainability/infrastructure and service management/efficiency criterion, and Council's Loan Borrowing Policy.

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
1. Operational Liquidity (short term focus)				
<p>1.1 Unrestricted Current Ratio – unrestricted current assets divided by unrestricted current liabilities. As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >1.5:1.</p> <p><u>Purpose</u> – this is a measure of Council's ability to meet its short term liabilities with its short term assets.</p>	>1.5:1	Not Applicable	Yes	No
<p>1.2 Rates and Annual Charges Outstanding – rates & annual charges outstanding divided by rates & annual charges collectible. As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark <10%.</p> <p><u>Purpose</u> – this measure assesses the impact of uncollected rates & annual charges on Council's liquidity and the adequacy of Council's debt recovery efforts.</p>	<=5%	Not Applicable	Yes	No

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
<p>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. As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >3 months.</p> <p><u>Purpose</u> - This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</p>	Consolidated Funds: Minimum >3 months	Not Applicable	Yes	No
2. Fiscal Responsibility (Council elected term focus)				
<p>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. As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >0%.</p> <p><u>Purpose</u> - 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.</p>	All Funds: Minimum >0%	>=0% meet within 5 years i.e. by 2020/21	No	Yes

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
<p>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. As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >60%.</p> <p><u>Purpose</u> - 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.</p>	All Funds: Minimum >60%	>60% meet within 5 years i.e. by 2020/21	No	Yes
<p>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). As per Note 28 Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >2x.</p> <p><u>Purpose</u> - This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.</p>	All Funds: Minimum >2x	Not Applicable	No	Yes

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
<p>2.4 Debt Service Ratio - Cost of debt service (interest expense & principal repayments) divided by total continuing operating revenue (excluding capital grants and contributions).</p> <p><u>Purpose</u> – 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.</p>	<p>General Fund <12%, Water & Sewer Fund <=50% (per Council's Loan Borrowing Policy)</p>	<p>>0%<=20% meet within 5 years i.e. by 2020/21</p>	No	Yes
<p>2.5 Real Operating Expenditure Per Capita – Operating expenditure indexed by the Local Government Cost Index, divided by population of Council area. Per IPART's Fit for the Future (FFTF) requirement – there must be a demonstrated decrease in the ratio over time, i.e. operational savings (net of Integrated Planning & Reporting (IP&R) supported service improvements) over 5 years, by 2020/21.</p> <p><u>Purpose</u> - Changes in real operating expenditure per capita are considered to assess how effectively Councils:</p> <ul style="list-style-type: none"> • 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) 	<p>General Fund only - A decline in ratio over 5 years by 2020/21</p>	<p>Demonstrate savings over 5 years i.e. by 2020/21</p>	No	Yes

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
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).				
3. Financial Sustainability (Long term intergenerational focus)				
<p>3.1 Building & Asset Renewal Ratio – expenditure on building and infrastructure asset renewals divided by depreciation, amortisation & impairment for building and infrastructure assets. As per the Report on infrastructure assets in the Special Schedules, Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >100%.</p> <p><u>Purpose</u> – this measure assesses the rate at which building & infrastructure assets are being renewed & upgraded against the rate at which they are depreciating.</p>	All Funds Minimum > 100%	>100% meet or show improvement towards achieving it within 5 years i.e. by 2020/21	Yes	Yes
<p>3.2 Infrastructure Backlog Ratio - Estimated Cost to bring Assets to a Satisfactory Condition, divided by net carrying amount of infrastructure assets. As per the Report on infrastructure assets in the Special Schedules, Local Government Code of Accounting Practice & Financial Reporting Update 27– benchmark <2%.</p> <p><u>Purpose</u> - This ratio shows what proportion the infrastructure backlog is against the total value of a council's infrastructure.</p>	All Funds Maximum <2%	<2% meet or show improvement towards achieving it within 5 years i.e. by 2020/21	Yes	No

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
<p>3.3 Cost to bring assets to agreed service level – Estimated cost to bring to an agreed level of service set by the council divided by gross replacement cost. As per Report on infrastructure assets, Local Government Code of Accounting Practice & Financial Reporting Update 27.</p> <p>There is no industry benchmark available.</p> <p><u>Purpose</u> - To assess the proportion of outstanding renewal works compared to the total suite of assets that Council has under its care and stewardship.</p>	All Funds <=4.5%	Not Applicable	Yes	No
<p>3.4 Asset Maintenance Ratio - Actual Asset Maintenance divided by Required Asset Maintenance. As per Report on infrastructure assets, Local Government Code of Accounting Practice & Financial Reporting Update 27 – benchmark >100%.</p> <p><u>Purpose</u> - 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.</p>	All Funds: Minimum >100%	>100% achieve or show progress towards achieving it within 5 years i.e. by 2020/21	No	Yes

KEY FINANCIAL INDICATORS	COUNCIL'S KFI GOAL	Fit For The Future KFI (General Fund Only)	KEY FINANCIAL INDICATOR TYPE	
			Financial Position Indicator	Financial Performance Indicator
<p>3.5 Asset Sustainability Ratio – Planned capital expenditure on renewing and replacing existing assets (net of proceeds from sale of replaced assets), divided by the optimal level proposed in Council’s Asset Management Plan. Local Government Association South Australia Financial Sustainability Information Paper No.9: <i>Financial Indicators</i> – Revised February 2012.</p> <p><u>Purpose</u> – Indicates the extent to which existing non-financial assets are being renewed and replaced compared with what is needed to cost-effectively maintain service levels. Achievement of the suggested target would mean that Council was reasonably optimising the timing of capital outlays on the renewal/replacement of assets.</p>	<p>All Funds: Minimum >90% but <110%</p>	<p>Not Applicable</p>	<p>Yes</p>	<p>No</p>

6. Reporting

The fourteen (14) financial indicators included in the Financial Planning Policy will be incorporated into Council's 10 Year Long Term Financial Plan with the benchmark goals identified for each indicator measuring Council's financial position and performance.