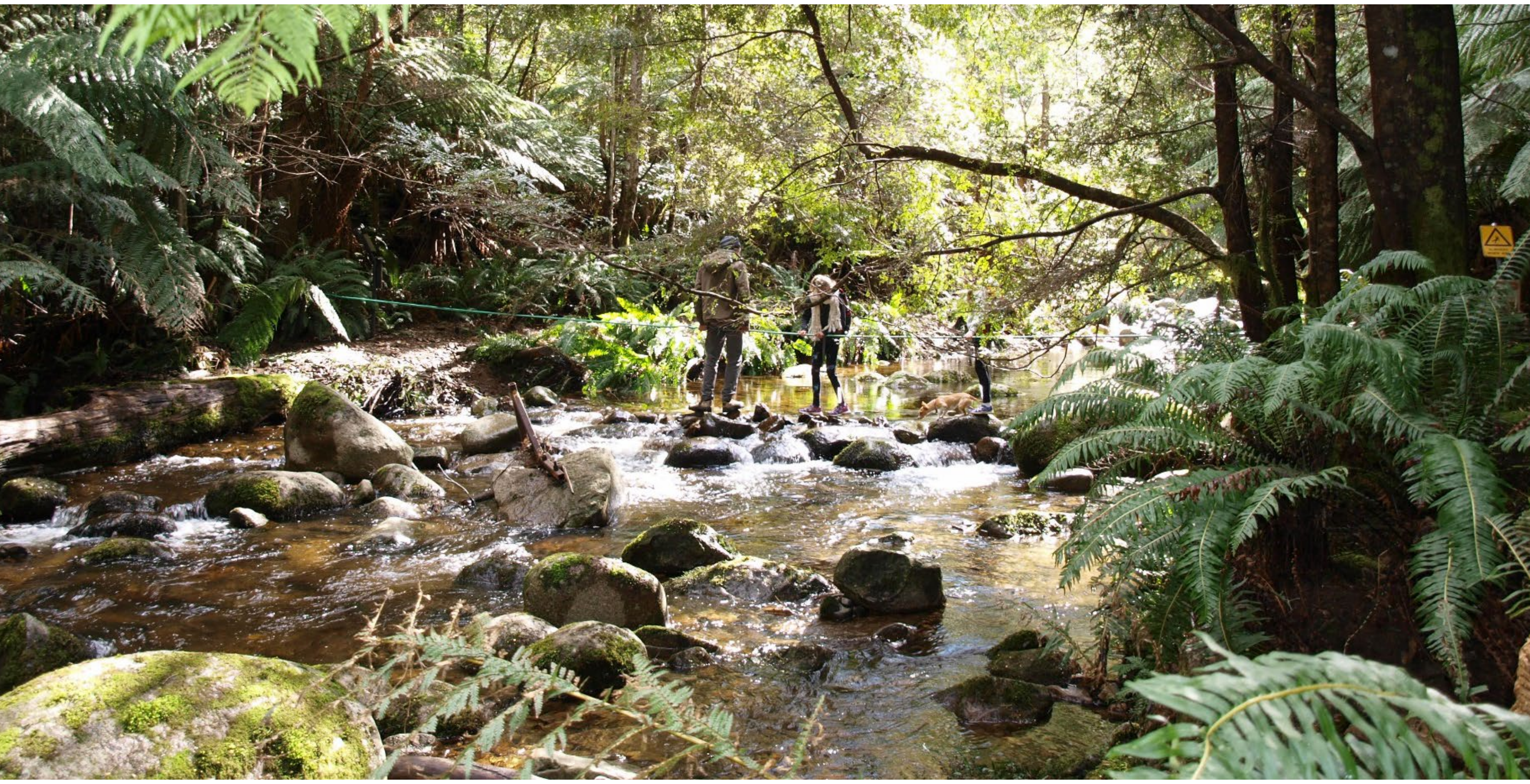
Financial Management Strategy

2023 – 2030



ADOPTED – Date: 17 April 2023

REFERENCE : 018\036\003

Contents

Introduction

The Financial Management Strategy (FMS) provides the Break O'Day Council (Council) with a strategic framework to guide the development of annual budgets and preparation of long-term financial planning. The FMS has been prepared in accordance with section 70A of the *Local Government Act 1993* which states that the FMS and the long-term financial management plan are to:

- be consistent with the strategic plan;
- refer to the long-term strategic asset management plan; and
- contain at least the matters required by Ministerial Order under section 70F.

Section 70F of the *Local Government Act 1993* has been reviewed and no additional requirements have been identified that need to be included in Council's FMS.

The key objective of the FMS is to ensure that Council can sustainably fund the ongoing delivery of services whilst implementing the objectives identified in the Strategic Plan. The Local Government and Planning Ministers' Council "Criteria for Assessing Financial Sustainability" defines financial sustainability as follows:

'a Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards as prioritised through community engagement and consultation are met without unplanned increases in rates and charges or disruptive cuts to services.'

Financial sustainability at Council means that:
'Break O'Day Council plans and makes decisions so that appropriate services and infrastructure, as determined through community engagement and consultation, are provided at acceptable service levels – to current and future generations – without a need to unexpectedly increase rates and charges or reduce services.'

In committing to a financially sustainable future, no policy or other decisions will be made without considering the long-term financial impact of those decisions. The FMS provides the framework from which Council will achieve the aims set out in its Long-Term Financial Management Plan (LTFMP).

The key objective of the LTFMP is to move beyond 'financial sustainability' to a position of 'financial comfort' by 2025/2026. Financial comfort is considered to be a position where Council has an underlying and ongoing annual surplus. This will provide Council with the flexibility to initiate activities and services within the Break O'Day area which facilitates the growth of; the population, local economy as well as progress objectives of the Strategic Plan. The LTFMP provides a tool for Council to consider the financial impact of its decisions on Council'sfuture financial sustainability. It includes consideration of cost increases: employee related costs, materials and services and other operating costs; and revenue increases: rates, user fees and charges, operating grants and other fees and charges.

The LTFMP is aimed at:

- moving away from an annual budget focus, towards a long-term financial planning process (and budgetary framework) where the future cost or lost opportunity that may arise from short-term decisions can be identified;
- adopting a 'whole of council' perspective to enable continuous improvement of our asset management and financial management practices, and to set targets for future longer- term improvement;
- maintaining stable and predictable rates and charges increases in the medium to long term;
- maintaining effective financial governance through the setting of appropriate long-term financial targets that enable the assessment of emerging challenges or opportunities that impact the Council's long-term financial sustainability;
- establishing accountability through the setting of long-term financial sustainability indicators, and the monitoring of their achievement; and,
- educating elected members, Council officers and the community on understanding and considering the potential impact of capital investment and operational service delivery decisions on the long-term financial position of the Council.

The LTFMP includes a Statement of Profit or Loss and Other Comprehensive Income, a Statementof Financial Position and a Statement of Cash Flows for each year of the plan. Council refers to this model when considering financial decisions, for example new capital expenditure and borrowings.

Integrated planning and reporting framework

Long term financial planning is a key element of the integrated planning and reporting framework. The LTFMP demonstrates Council's long term financial sustainability, allows early identification of financial issues, shows the linkages between specific plans and strategies and enhances the transparency and accountability of the Council to the community.

Strategic Plan

Council's ten-year Strategic Plan contains the objectives and strategies that Council will follow to achieve the community's vision and goals. This is a key document for Council to track and report on progress to the community.

Asset Management Strategy

The objective of the Strategic Asset Management Plan is to establish a framework to guide the planning, construction, maintenance and operation of the infrastructure essential for Council to provide services to the community.

The Strategic Asset Management Plan enables Council to:

- show how its asset portfolio will meet the service delivery needs of its community into the future;
- demonstrate how Council's asset management policies will be achieved; and
- ensure the integration of Council's asset management with its long-term strategic plan.

Annual Plan and Budget

The strategies and Key Focus Areas identified in the Strategic Plan shape the actions that Council undertakes each year through the Annual Plan. The Annual Plan is effectively a management tool used for monitoring and reporting on the performance of the organisation as well as forming the basis for the allocation of Council resources to community priorities.

The Annual Budget includes the objectives and intent of the projected costings of the Annual Plan . This information is input to the LTFMP and projected at a summary level over 10-years using a range of assumptions. The data generated through this process is then utilised to update the LTFMP.

Management and review

The FMS is a guiding document to consider when developing budget estimates, rather than a document that is dictating future decisions of Council. The long-term financial estimates generated by the FMS will be revisited and updated regularly to reflect any strategies that arise from the Council planning process.

Council will manage the FMS through the annual planning process, updating and maintaining the ten year LTFMP and indicators, and the budgeting process. This will ensure that planned long- term service and infrastructure levels and standards are met without a need to unexpectedly increase rates and charges or reduce services.

Financial Management Principles

These principles serve to guide Council in setting the financial management strategies.

Principle 1: The Community's finances will be managed responsibly to enhance the wellbeing of residents

Council will endeavour to only raise the revenue it requires to be sustainable and will do so in an efficient and equitable manner. Council will manage community funds according to best practice standards and ensure information regarding its financial management decisions is accessible to the community.

Principle 2: Council will apply user pays principles where it is appropriate to do so and there is a clearly identifiable cohort benefit from using those assets, facilities and/or services.

Council will apply a user pays approach as the preferred revenue collection method for asset development, facility use and service delivery where appropriate.

Principle 3: Council will maintain a vision of ongoing sustainability so that the wealth enjoyed today may also be enjoyed by future generations

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to expenses being met from recurrent revenue (the full cost of the service it consumes). Council will invest sustainably in community assets to maintain (and potentially enhance) service levels.

Principle 4: Council's financial position will be robust enough to recover from unanticipated events and absorb the volatility inherent in revenue and expense

Council will ensure it accumulates and maintains sufficient financial resources and has the borrowing capacity to deal with volatility and unexpected events. Council's operational budget will be flexible enough to ensure that volatility in revenues and expenses as a result of the changing economic environment can be absorbed.

Principle 5: Resources will be allocated to those activities that generate community benefit.

Council will ensure that robust and transparent processes are in place for the allocation and prioritisation of resources through budgetary decision-making, as well as for choosing the most effective methods for delivering specific services and projects. Council will recognise its service delivery obligations to the Break O'Day community as a whole in its decision making and allocation of resources.

Principle 6: Council will procure goods and services in an open and transparent manner.

Council is committed to a procurement system that will produce the best value for money, quality goods and services to our residents and ratepayers, open and effective competition, enhancement of the capabilities of local business and industry and that treats all tenderers in a timely and fair manner.

Financial Management Directives

The vision for the future can be achieved by pursuing a range of key directives which contribute to the underlying objective of achieving financial comfort:

1. Collective Action Model – shared projects and services with other Councils (Northern Region Shared Services program), Government agencies and the private sector.

2. Diversify revenue – through commercial activities and delivering services aligned with Council's core competencies.

3. Expand the rate base – through economic development activities and support of the business community, including unlocking state owned land (excluding state reserves and national parks) for commercial activities and potentially adjusting the municipal area as part of an overall boundary consideration.

4. Boundary and service delivery logic – service delivery is not determined by Council boundaries but by efficiency, logic and Council priorities.

5. Maximise grant revenue – actively pursue grant funding opportunities for Council priorities and capital projects identified in Council budget, Annual and/or Strategic Plan

6. Identify operational savings – through reviews of service delivery and procurement to identify cost and/or labour efficiencies.

7. Tender for internal and external infrastructure projects (eg for state agencies) - to enhance economies of scale and maximise plant utilisation.

8. Address underutilised capacity and skills – identify opportunities to take advantage of unused resources, both within and external to the municipality.

<u>In pursuing these directives, the following statements of intent are supported:</u>

1. Competition is okay – work with and support existing businesses to ensure no long-term negative impact whilst supporting new growth

2. Profit is acceptable – whatever is taken on or outsourced occurs on a full cost recovery basis plus a 'profit' margin

3. Asset use maximised – resources can be developed for commercial purposes or to increase the rate base.

4. Outcomes must be quantified – measurement processes must be established to quantify the savings achieved or the 'profit' derived from a change

5. Non-quantifiable benefits – can be considered provided there is no significant negative quantifiable outcome.

Financial Management Strategies

The FMS is an important part of the overall financial management activities of Council. The following table demonstrates the context within how this document fits into the overall financial management framework of Council.

IMPACTS	FINANCIAL ACTIVITIES	ROLES
Internal Impacts	Long Term Financial Planning	Elected Members
Strategic Planning	Annual Budgeting	Policy Setting
Communication Strategies	Revenue Collection	Annual Budget Adopt and Set
Other Policy Decisions	Maintenance of Financial Records	Corporate Performance Management
External Impacts	Asset Management Plans	Delegate Authority
Local Government Act	Cash Management	Community Consultation Receive / Review Information.
Regulations	Internal Controls	Management
Accounting Standards		Implement Council Decisions
Community		Advise/Inform Elected Members.
Government Grants		Set Administrative Policy
Other External Factors		Prepare Annual Budget

The following financial strategies portray the strategic direction in which Council's financial decisions are based including borrowing, infrastructure, and service delivery. Specific financial strategies which should be noted include:

Rating Strategy

Rates revenue represents the largest share of total income that Council generates each year and therefore is an important component of the financial planning process.

Council's rating strategy establishes a framework by which rates and charges will be shared by the community. Higher percentages of rates and charges as a proportion of total revenue represent greater financial independence and financial sustainability.

Council only raises the revenue it needs, and does so in the most efficient and equitable manner possible. Council must balance its service levels with the needs and expectations of the community and set appropriate levels of rates to adequately fulfil its roles and responsibilities.

The following factors influence the level of rates and charges:

- Distribution and level of Commonwealth and state funding;
- Socio-economic profile of the area (capacity to pay);
- User-pays policies;
- Level and range of services to be delivered; and
- Current economic environment.

In determining its rates each year Council gives consideration to the current economic climate and the capacity of the community to pay for services. The aim of rates and charges decision-making is to spread the burden fairly across the community with those that have the greatest capacity to pay paying more than those with a lesser capacity to pay. Council must balance capacity to pay with the benefit principle acknowledging that some groups of the community have more access to and benefit from specific services.

Rating Structure

The rating structure determines how the Council will raise money from properties within the municipal area. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property. Council has established a rating structure comprising of two key elements – general and service rates.

The general rates are levied based on the Annual Assessed Value (AAV) of properties as determined by the Valuer-General. Property values generally reflect the capacity of the ratepayer to pay. The service rates currently cover waste management and infrastructure services. This user pays component is designed to reflect payment based on usage of services provided by Council. Council will endeavour to strike a balance between the two elements to provide equity in the distribution of the rate burden across the municipality. Further Council will investigate the inclusion of a new service rate for stormwater to improve, maintain and deliver the stormwater service.

AT A GLANCE

- ❖ To provide Council with a reasonable degree of consistency and stability in the level of the rates burden.
- ❖ To maintain rating levels at a rate that will phase out any overall financial shortfall over the medium to long term.
- ❖ To maintain rating levels that will build community wealth through the achievement of underlying surpluses.

More information regarding Council's approach to determining and collecting rates from the community can be found in Council's Rates and Charges Policy.

Fees and Charges Strategy

Council continues to be committed to the implementation of user pays principle. From a merit viewpoint this approach is correct in that it recognises the situation where certain services are consumed by a discrete part of the community.

The approach of user pay does not necessarily mean that every service or function is subject to this principle nor does it constrain council from exempting some sectors of the community from paying for the service where it deems the service to be a community service obligation or it is uneconomic to provide the service to a given area or cohort.

When determining the level of fees and charges, Council will have regard to the user pays principle and where possible recover the full cost of operating or providing the goods and services in accordance with National Competition Policy guidelines.

Council maintains a register of fees and charges in accordance with section 206 of the *Local Government Act 1993*. The fees and charges contained in the register are reviewed each year as part of the annual budget deliberations. Fees and charges will be increased annually by a minimum of the Consumer Price Index (CPI) except those categorised as Legislated, Government Agency or Council which are set independent of this strategy.

AT A GLANCE

- Minimum increase of CPI for fees and charges
- Exception for fees categorised as Legislated, Government Agency or Council which are subject to independent approval
- Full cost recovery to be adopted where possible

Other Revenue Strategy

Other significant revenue streams include investment income from dividends and grant revenue. Council holds a 1.95% equity investment in Tasmanian Water Corporation (TasWater). As part owner of TasWater, Council aims to ensure that future entitlements are maintained.

Grant revenue represents around 10% of overall operating revenue. The main source of grant revenue is from the State Grants Commission (SGC) in the form of the Financial Assistance Grant (FAG). The FAG is distributed as Base and Road components with the methodology being reviewed every 3 years. Although Council has little control over how the FAG funding is distributed, Council will continue to review all operational and capital funding opportunities and identify and apply for appropriate grant funding.

Council has an expressed appetite for the exploration of alternate revenue generation through innovation and/or new funding sources that generate value for the community more broadly that could compliment/substitute funding from existing sources. Revenue generation from the sale of Council assets surplus to Council's core needs will be investigated during the term of the LTFP.

AT A GLANCE

- Council will aim to ensure future entitlements from TasWater are maintained
- All operational and capital funding opportunities to beexplored
- To continue to seek an equitable share of funding for Local Government from the Commonwealth and State Governments.

Expenditure and Service Delivery Strategies

The Council provides a diverse range of services as detailed in the Annual Plan. All such services are funded through the operational budget derived from rates, charges and other income each year.

Ultimately, the Council determines the range and level of services it is able to offer the community via its strategic planning process. This is finalised through the annual budget process with the Long Term Financial Plan providing preliminary guidance based on the service delivery model from the previous year. One of the key objectives of the Council's Long Term Financial Plan is to maintain existing service levels and maintain a satisfactory operating position over the life of the Long Term Financial Plan. The operational budget is also guided by the asset management plan in terms of infrastructure maintenance.

Council is focused on developing a cost management culture across the organisation, encouraging Councillors to be actively aware of their roles and responsibilities and to be accountable for their decision making at a financial level and all managers to be involved in minimising costs by accountability through the budget process and involvement with ongoing monitoring, reporting and forecasting processes.

Council will comply with its Code for Tenders and Contracts to ensure that expenditure is subject to the appropriate controls and represents the best value available.

AT A GLANCE

- **Service levels to be delivered as efficiently as possible**
- **Costs to be minimised through accountability, reporting and monitoring**
- **Expenditure subject to Council's Code for Tenders and Contracts**

Investment Strategy

Cash reserves will be managed to achieve optimum investment returns and to ensure that cash isavailable when needed for planned expenditures. Council will utilise the cash flow projections contained in the LTFMP to assist in the management of cash and investments.

Investment management is undertaken in a manner that seeks to ensure the security of the investment portfolio. Funds will only be placed with institutions which have a Standard and Poors short term rating of 'A1' or above, or a long term rating of 'A-' or above.

Not less than two quotations shall be obtained from authorised deposit-taking institutions whenever an investment is proposed.

AT A GLANCE

- **LTFMP cash flow projections to be used to manage cash**
- **Funds to be placed with institutions which have a Standardand Poors rating A1 or A-**
- **Two quotations required from institutions for investment**

Grant Funding and Debt Strategy

Council is dependent on a large investment in infrastructure assets to deliver its service objectives and is mindful of intergenerational equity in generating revenue to offset service costs.

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost ofthe service it consumes).

As a minimum, Council seeking to move beyond 'financial sustainability' to a position of 'financial comfort'. This means that on average over time it will generate sufficient funds to offset consumption of existing assets (through its depreciation expense). On average over time, it will have sufficient capacity to accommodate asset renewal requirements without the need to raise additional borrowings.

Council has a stated preference to attract government grants to fund major new capital expenditure. Council will consider the use of grant funding combined with the prudent use of debt facilities to co fund capital investment where the use of debt in in relation to the life of the asset delivers a demonstrable level of inter-generational equity.

When considering new debt, Council will evaluate the impact of borrowing costs on the sustainability of current and future budgets and its capacity to repay the debt. Thought will be given to the structure of the funding arrangement with the overall aim of minimising interest rate exposure, borrowing and administrative costs. When borrowing, Council will raise all external debt and the most competitive rates and from authorised borrowing institutions with a minimum long term Standard and Poors credit rating of 'A'.

Council will utilise the cash flow projections contained in the LTFMP to assist in the management of debt and cash reserves. When surplus funds exist over and above the finances required to cover normal operations, working capital needs, and cash funded reserves, the General Manager may make a recommendation to Council to redeem borrowings. The decision to redeem borrowings will be made based on the facts available at the time the surplus funds are available, giving due regard to minimising the overall cost to the Council.

AT A GLANCE

- **Government Grant funding is the preferred method to fund major new capital expenditure**
- **The use of debt to be assessed against the life of the asset and demonstrable intergenerational equity**
- **Borrowing costs to be evaluated and the impact on LTFMP to be considered**
- **Debt to be sourced from borrowing institutions with a minimum long term Standard and Poors credit rating of A**
- **General Manager may make a recommendation to Council to redeem funds where surplus funds exist**

No additional borrowings have been included in the Plan. Scheduled principal repayments have been funded over the life of the Plan.

Government Grants

To reduce the impact on Council's cash reserves and annual revenue streams such as the Financial Assistance Grant, there is a focus on securing external grant funding to deliver Council's identified priorities and projects. Performance targets relating to the amount to be secured and a success rate are established in the Annual Plan. Typically this is a minimum of $250,000 per annum at a success rate of 75% annually. To achieve this regular monitoring of grant opportunities will be required coupled with a capacity within the organisation to research and prepare successful grant applications.

Asset Management

To ensure the long-term financial sustainability of Council, it is essential to balance the community's expectations for services with their ability to pay for the infrastructure assets used to provide the services. Maintenance of service levels for infrastructure services requires appropriate investment over the whole of the asset life cycle. To assist in achieving this balance, Council aspires to develop and maintain asset management governance, skills, process, systems and data in order to provide the level of service the community need at present and into the future, in the most cost-effective and fit for purpose manner.

Broadly, asset management involves the development and delivery of an:

- Asset management strategy;
- Asset management policy; and
- Asset management plans.

Asset Management Strategy

The strategy outlines an asset management improvement plan detailing a program of tasks to be completed and resources required so that Council has a minimum 'core' level of asset maturity and competence. The Asset Management Strategy was adopted by Council in December 2021. The objectives of the asset management strategy are to:

- demonstrate how its asset portfolio will meet the service delivery needs of itscommunity into the future;
- enable Council's asset management policies to be achieved; and
- ensure the integration of Council's asset management with its LTFP.

Asset Management Policy

The purpose of Council's Asset Management Policy is to define the Council's vision and service delivery objectives for asset management in accordance with the Strategic Plan and applicable legislation. The Asset Management Policy was adopted by Council in August 2019. The policy enables Council to show:

- how its asset portfolio will meet the affordable service delivery needs of the communityinto the future;
- how Council's asset management policies will be achieved; and
- ensure the integration of Council's asset management with the strategic plan.

Asset Management Plans

The asset management plans demonstrate responsive management of assets (and services provided from assets), compliance with regulatory requirements, and to communicate funding needed to provide the required levels of service.

Individual Asset Management Plans have been created for each asset class. Information from theindividual asset management plans are integrated into the LTFMP.

To ensure compliance with relevant legislative requirements and contemporary asset management practices, the Asset Management Strategy along with the Asset Management Policy andPlans, will be reviewed regularly.

Funding of Infrastructure

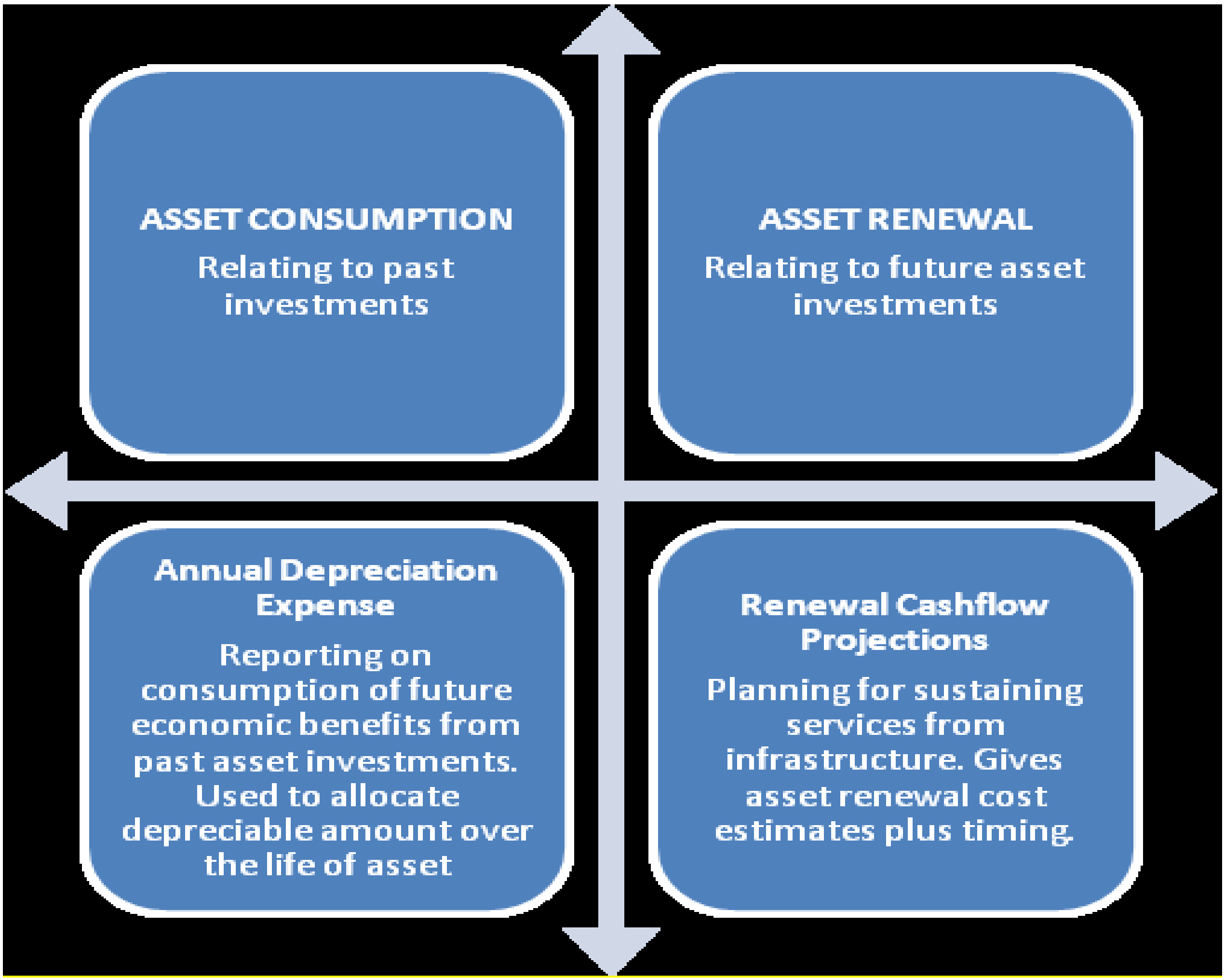
Typically Council's are faced with significant challenges when community expectation for investment in to new infrastructure assets occurs without a clear understanding of the costs of renewal of the existing asset base. New investments in to major capital projects need to be carefully considered against the communities' capacity to fund a new asset. New asset investment, if not planned and funded correctly can lead to a reduction in the capacity to fund the renewal of existing assets.

A decision not to fund the renewal of existing assets would lead to reduced service levels and higher costs in the future without other funding sources. Increases in rates are often seen as 'the' solution to the problem of ageing assets. However it is only one of a number of options available to council to fund the maintenance and management of its major infrastructure. Options which could be applied individually or in combination are:

- Maintain underlying surpluses;
- Raise additional revenue;
- Changing the composition of capital spending to ensure adequate renewals;
- Re-evaluation of service levels and standards;
- Choosing low cost strategies over high cost asset strategies;
- Demand management;
- More efficient use and operation of assets;
- Making forward provision for renewal by reducing debt to create future borrowing capacity;
- Carrying out cost/benefit analyses on the services being provided; and
- Asset rationalisation and review of asset growth strategies.
- Emphasis is placed on understanding and planning for long-term infrastructure funding needs to effectively allow for the ongoing funding of:
- Existing services-operations, maintenance, asset renewal, asset upgrade and proposed
- variations; and
- New services and assets required.

The key objective of Council's Asset Management Strategy is to maintain Councils existing assets at desired condition levels. If funding is not sufficiently allocated to asset renewal then Council's investment in those assets will reduce along with the capacity to deliver services to the community.

It is important for Council to fund asset management to ensure its assets achieve their full expected service life but can also be renewed without incurring large rates increases into the future. In addition, council faces continuing expectation and pressures to maintain and increase service levels while at the same time keeping rate rises to a minimum and having sound long-term financial management.



The Council has adopted its Asset Management Policy. The policy is supported by an Asset Management Strategy, which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives. The Asset Management Strategy is a subsequent component to which supporting long term asset management plans (ten years and beyond) outline service and funding levels for each asset category. It is critical for Council to understand the inter-relationship of the asset management framework and the financial management framework and to constantly work towards improving the level of understanding of both frameworks across the entire organisation.

LTFMP Assumptions and Methodology

The LTFMP reflects the projected financial position of the Council over the next ten yearsthrough the following financial statements:

- Statement of Profit or Loss and Other Comprehensive Income;
- Statement of Financial Position; and
- Statement of Cash Flows.

The LTFMP takes the current budget as a base and utilises various assumptions to forecast the following years of the plan.

The LTFMP reflects all current assumptions and decision making. The LTFMP does not include things that might change, but have not yet been decided at the time of its formulation. The assumptions and variables used to underpin Council's LTFMP are reviewed annually. LTFMP assumptions are made in relation to:

- Consumer price index; and
- Interest rates

Assumptions are applied to the following major revenue segments:

- Rates Revenue
- Rates Growth
- Statutory Charges
- User Charges
- Grant Revenue
- Water Distribution

Assumptions are applied to the following major expenditure segments:

- Employee Benefits
- Salary Review
- Contractors & Services
- Materials

The LTFMP is a tool to ensure that the Council achieves financial sustainability while delivering services to its ratepayers.

The plan provides projections of:

- Operating results over the forecast period. It is important that Council generates sufficient revenue to cover all of its cash and non-cash costs, with a small buffer.
- Cash balances over the projection period. It is important to ensure liquidity so that Councilis able to meet its debt obligations as and when they fall due.
- Forecast asset renewal funding requirements which is a key financial sustainability indicator. Renewal forecasts are continually being refined and the funding level continually monitored.

These key outcomes support the financial sustainability of Council, thus providing the ability to deliver services, at their current levels, into the future.

Measuring Financial Sustainability

Council's ability to remain financially sustainable and to satisfy the purposes of Section 84(2A) of the Act, can be measured using the Key Performance Indicators as outlined in the *Local Government (Management Indicators) Order 2014*.

The primary financial sustainability indicators are the long-term financial rules which guide Council in making financial decisions and the target and acceptable ranges may be varied by Council over time.

The seven measures adopted for the purposes of the LTFMP are:

- Underlying surplus or deficit
- Underlying surplus ratio
- Net financial liabilities
- Net financial liabilities ratio
- Asset consumption ratio
- Asset renewal funding ratio
- Asset sustainability ratio

The first two are measures of profitability, the next two are measures of indebtedness, and the last three are measures of asset management.

The ranges established for the primary financial sustainability indicators allow for some impact of future uncertainties and contingencies so that ongoing financial sustainability can be maintained.In addition, Council will prudently set aside reserves to fund future expenditure requirements. However, it is impossible to plan for every eventuality (e.g. natural disasters or major legislative changes impacting on local government), and Council may be required to undertake short-term corrective actions in the future to respond to unexpected events and immediate challenges to financial sustainability.

Indicator 1 – Underlying Surplus or (Deficit)

The difference between day-to-day income and expenses for the period (excluding contributed assets, asset revaluations and capital grants). This indicator is seen as a better indicator of sustainable or recurring operations as it excludes capital grants which can be project specific and thus non-recurring, and other amounts which are recorded as income due to accounting standardrequirements.

An operating surplus arises when operating revenue exceeds operating expenses for the period. An operating deficit arises when operating expenses exceed operating revenue for the period. Council's long term financial sustainability is dependent upon ensuring that on average, over time, its expenses are less than associated revenues. This ensures equality between generations of ratepayers in that each generation is responsible for the cost of resources they consume.

Research indicates that there is no clear agreement on what an appropriate target should be. Forexample, the Victorian Auditor-General recommends generating surpluses consistently, the Tasmanian report "Framework for Long Term Financial and Asset Management Planning for all Tasmanian Councils" September 2009 recommends breakeven, or better, on average over medium term, and some state studies recommend sizeable surpluses.

This provides for sufficient cash to fund operations, asset replacements on a consistent basis and provide sufficient funds to meet loan repayments as required. Without the funding of loan repayments over and above breakeven, there would be reduced funds available for asset replacements and place a burden on future ratepayers.

Indicator 2 – Underlying Surplus or (Deficit) Ratio

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of total revenue (adjusted by excluding capital grants, contributed property, plant and equipment and asset revaluation increments/decrements). It is a better indicator than the underlying operating result because it expresses that result relative to annual revenue.

Research indicates a wide range of views on appropriate targets. Reviews indicate targets of 0% to 15%, 2.5% to 7.5%, but within the range of 0% to 10% and greater than 0%. A target of greater than 2-3% has been selected which is in keeping with the Underlying surplus "Framework for Long Term Financial and Asset management Planning for all Tasmanian Councils" September 2009 recommendation.

Financial Management Indicators	Target
Underlying Surplus or Deficit	Greater than $0 + principal loan repayments
Underlying Surplus Ratio	Greater than 2-3%

Indicator 3 – Net Financial Liabilities

What is owed to others less cash held/invested and receivables and is thus a measure of net indebtedness. It is broader than just loan debt, as it includes amounts owed to creditors, employeeprovisions, amounts held in trust and all other liabilities. The Tasmanian Auditor-General suggests a benchmark of greater than zero for this measure.

Indicator 4 – Net Financial Liabilities Ratio

This ratio is net financial liabilities expressed as a percentage of income. It indicates the extent to which net financial liabilities can be met by the Council's income. Where the ratio is increasing it indicates the Council's capacity to meet its financial obligations from income is strengthening.

The Tasmanian Auditor-General suggests a ratio of 0% to -50% represents low risk, -50% to -100% moderate risk, and greater than -100% high risk.

Financial Management Indicators	Target
Net Financial Liabilities	Greater than $0
Net Financial Liabilities Ratio	At least 0%

Indicator 5 – Asset Sustainability Ratio

This ratio is asset replacement capital expenditure expressed as a percentage of depreciation expense. It measures whether assets are being replaced at the rate at which they are wearing out. With a young asset portfolio, the target may be quite low. If old, it may be > 100%. Over time, if it averages at or near 100% the service of the asset portfolio is being maintained.

The Tasmanian Auditor-General suggests a benchmark of 100% for this measure.

The indicators are scrutinised by the Tasmanian Audit Office and are subject to commentary in theReport of the Auditor-General presented each year to State Parliament.

Indicator 6 – Asset Consumption Ratio

This indicator expresses asset written down value as a percentage of replacement cost and therefore seeks to measure the proportion of life remaining in assets. A lower measure indicatesan older, on average, portfolio of assets and could indicate the potential for large renewal expenditure. However, a low or declining ratio is not a concern provided assets are being maintained/replaced in accordance with well-prepared asset management plans and the organisation is operating sustainably. The cash generated by operating sustainably funds the renewal of assets when required.

An appropriate target is difficult to define and one source suggests a ratio between 40% and 80%.The Tasmanian Auditor-General considers the road asset class in isolation and suggests a ratio of >60% to represent low risk, 40 to 60% moderate risk and less than 40% high risk. Council's road assets are currently at 68% (2019/20).

Indicator 7 – Asset Renewal Funding Ratio

This indicator is the ratio of future asset replacement expenditure as per the LTFMP relative to the future asset replacement expenditure requirement sourced from asset management plans. It therefore measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels.

To maintain operating capacity, the Tasmanian Auditor-General expects a council to fund 90% of its planned asset requirements.

Asset Management Indicators	Target
Asset Consumption Ratio	At least 60%
Asset Renewal Funding Ratio	At least 90%
Asset Sustainability Ratio	Average of 100%

Summary

Long-term financial planning provides for the optimum allocation of available resources to deliver Council's strategic and corporate objectives. Long-term financial planning supports the delivery ofCouncil's community vision.

Long term financial sustainability can only be achieved when Council is providing expected servicesat defined levels to its community that is adequately funded, not only on an annual basis, but in the long term. This includes infrastructure asset renewal funding requirements.

The achievement of the outcomes in the Financial Management Strategy will ensure Council's financial sustainability, thus providing the ability to deliver services, at their current levels, into the future while sharing the cost between current and future generations of ratepayers.