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2023-2033

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# FINANCIAL MANAGEMENT STRATEGY

Adopted:

Minute No.:

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## Introduction

The Financial Management Strategy (FMS) provides the Flinders 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 a Long-Term Financial Management Plan is 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:

*'Flinders 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 the achievement of financial sustainability in the medium to long term whilst achieving Council's strategic objectives and meeting community expectations.

The LTFMP provides a tool for Council to consider the financial impact of its decisions on Council's future 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 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; and
- establishing accountability through the setting of long-term financial sustainability indicators, and the monitoring of their achievement.

The LTFMP includes a Statement of Profit or Loss and Other Comprehensive Income, a Statement of 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 Plan & Strategy

The objective of the Long-Term Asset Management Plan & Strategy 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 Long-Term Asset Management Plan & Strategy 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 Policy will be achieved; and
- ensure the integration of Council’s asset management with its Long-Term Financial Management Plan.

## Annual Plan and Budget

The strategies identified in the Strategic Plan shape the actions that Council undertakes each year through the Annual Plan. The Annual Plan is used to frame the so that Council resources are allocated 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 needed revenue 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 maintain a vision of ongoing sustainability so that the wealth enjoyed today may also be enjoyed by future generations

Council will endeavour to achieve equity across generations by recognising each generation must pay its way. Council will invest sustainably in community assets to maintain service levels.

### Principle 3: Council's financial position will be robust enough to recover from unanticipated events and absorb the volatility inherent in revenue and expense

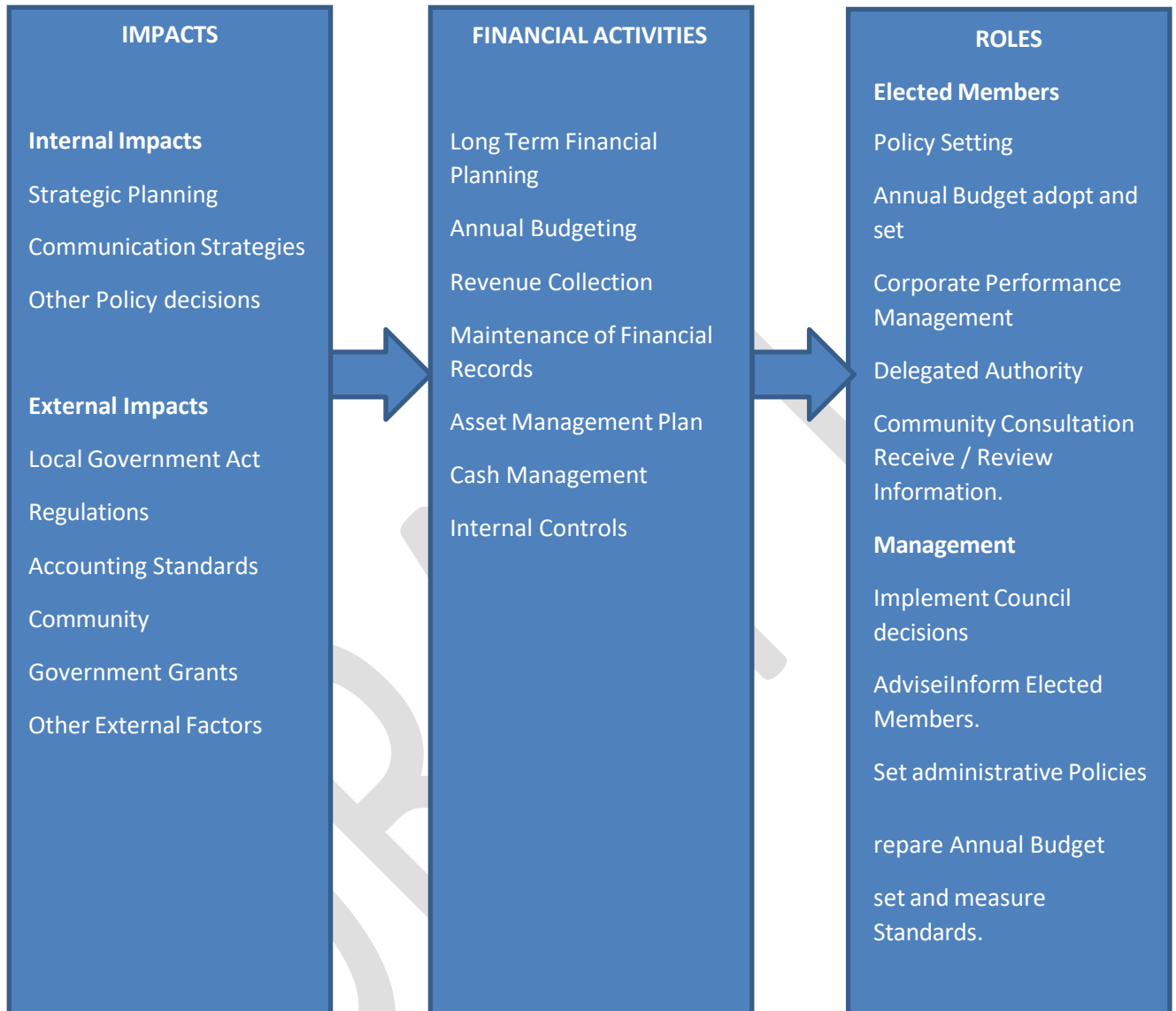
Council will ensure it accumulates and maintains sufficient financial resource and has the borrowing capacity to deal with volatility and unexpected events. Council's operational budget will be flexible enough to ensure that volatility in revenues and expenses as a result of the changing economic environment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

### Principle 4: Resources will be allocated in a transparent and equitable manner

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. Strategies will include a vigorous cost- benefit analysis in preparing and assessing proposals.

## 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.



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.

Rates represent a property tax based on the property's valuation. Council have set a general rate with 2 components, a fixed rate and a component based of the Assessed Annual Value (AAV) as set by the Valuer-General. The fixed component applies equally to all rateable land, there is no minimum rate in addition to this. In addition to using AAV, Council has adopted an option that allows a variation to the cents-in-the-dollar charge based on certain factors. The variation in the rates is known as Differential Rating. The differential rate applies to land used for commercial and industrial properties and vacant commercial land.

The Council will process concessions to eligible ratepayers who hold either a Pension Concession Card, a Veteran's Affairs T.P.I endorsed card, War Widows, or Health Care Card.

Each year Council will take into account the following factors when setting the level of rates and charges:

- level of State and Commonwealth Government funding;
- current economic climate;
- level of services to be delivered; and
- the capacity of the community to pay for those services.

### At a Glance

- ❖ Tax levied on basis of AAV
- ❖ A general rate in the \$/AAV and fixed rate to be applied
- ❖ Differential Rating categories based on land use and location
- ❖ Concessions will be granted to eligible ratepayers

## Fees and Charges Strategy

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, Agency or Council which are set independent of this strategy.



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.

#### **At a Glance**

- ❖ Minimum increase of CPI for fees and charges
- ❖ Exception for fees categorised as Legislated, 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 across Local Government, Council will continue to review all operational and capital funding opportunities and identify and apply for appropriate grant funding.

#### **At a Glance**

- ❖ Ensure TasWater future entitlements are maintained
- ❖ All operational and capital funding opportunities to be explored

### Expenditure and Service Delivery Strategies

Council will consistently review service levels and delivery to ensure they are delivered as efficiently as possible and continue to meet the needs of the community. Council is focused on developing a cost management culture across the organisation, encouraging all managers to be involved in minimising costs by accountability through the budget process and involvement with ongoing monitoring, reporting and forecasting processes.

At each budget cycle Council will consider the feedback received from the community through the various engagement opportunities to assess any potential changes to services. New strategies

developed though the year and the corresponding additional expenditure required, will be considered through the budget process.

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 is available 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 three 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 Standard and Poors rating A1 or A-
- ❖ Three quotations required from institutions for investment

## 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 of the service it consumes).

Council aims to achieve an operating break-even position. 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 will consider the use of debt facilities to fund major new capital expenditure which provides benefits to ratepayers into the future. Where possible, Council will assess the term of the debt in relation to the life of the asset. The use of debt in this manner attempts to address the issue 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 and borrowing and administrative costs. When borrowing, Council will raise all external debt at 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 Council's 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.

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

**At a Glance**

- ❖ Debt to be considered to fund major new capital expenditure
- ❖ Term of debt to be assessed against the life of the asset
- ❖ 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

## 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 Plan; and
- Asset Management Policy.

### 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 objectives of the asset management strategy are to:

- Demonstrate how its asset portfolio will meet the service delivery needs of its community into the future;
- Enable Council's asset management policies to be achieved; and
- Ensure the integration of Council's asset management with its Long-Term Strategic Plan.

### Asset Management Plan

The Asset Management Plan demonstrates 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.

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

### 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 policy enables Council to show:

- How its asset portfolio will meet the affordable service delivery needs of the community into the future;
- How Council's asset management policies will be achieved; and
- Ensure the integration of Council's asset management with the Strategic Plan.

## LTFMP Assumptions and Methodology

The LTFMP reflects the projected financial position of the Council over the next ten years through 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; and
- Water Distribution.

Assumptions are applied to the following major expenditure segments:

- Employee Benefits;
- Salary Review;
- Contractors & Services; and
- 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 Council is able to meet its debt obligations as and when they fall due; and
- 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 ensure the financial sustainability of Council, thus ensuring 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 sustainability ratio;
- Asset consumption ratio; and
- Asset renewal funding 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 standard requirements.

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. For example, 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.

## 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
<b>Underlying Surplus or Deficit</b>	Greater than \$0 + principal loan repayments
<b>Underlying Surplus Ratio</b>	Greater than 2-3%

## Indicator 3 – Net Financial Liabilities

Cash held/invested and receivables less what is owed to others and is a measure of net indebtedness. It is broader than just loan debt, as it includes amounts owed to creditors, employee provisions, 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
<b>Net Financial Liabilities</b>	Greater than \$0
<b>Net Financial Liabilities Ratio</b>	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 the Report 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 indicates an 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), low risk.

### 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
<b>Asset Sustainability Ratio</b>	Average of 100%
<b>Asset Consumption Ratio</b>	At least 60%
<b>Asset Renewal Funding Ratio</b>	At least 90%



## 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 of Council's community vision.

Long-term financial sustainability can only be achieved when Council is providing expected services, at 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.

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