

2021/22 Financial Management Strategy - Council Policy

Effective Date	1 July 2021
Policy Owner	Finance
Link to Corporate Plan	Sustainable Organisation
Review Date	June 2022
Related Legislation	<ul style="list-style-type: none"> • Section 104 (1) of the Local Government Act 2009; and • Section 169(5) of the Local Government Regulation 2012
Related Documents	2021/22 Revenue Statement 2021/22 Budget, including the Long-Term Financial Plan

Policy Version	Approval Date	Adopted/Approved
1	23/06/2021	Special Meeting of Council Adopt 2021/22 Budget

This policy may not be current as Council regularly reviews and updates its policies. The latest controlled version can be found in the policies section of Council's intranet or Website. **A hard copy of this electronic document is uncontrolled.**

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1. PURPOSE

The objective is to provide a financial management framework upon which Council's Budget and Long-Term Financial Plan is developed.

2. SCOPE

Section 104(1) of the Local Government Act 2009 states that to 'ensure it is financially sustainable, a local government must establish a system of financial management'. Section 104(2) of the Local Government Act 2009 states 'a local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long term'.

Section 169(5) of the Local Government Regulation 2012 defines the following as the relevant measures of financial sustainability.

Relevant Sustainability Measure(s)	Objective of Measures
Infrastructure capital	<p><i>Asset Sustainability Ratio</i></p> <p>Identification of a local government's existing asset base consumption and renewals levels. In conjunction with the Operating Surplus Ratio and the net Financial Liabilities Ratio, it provides a measure of the capacity of the local government to fund the level of investment needed over the long-term.</p>
Financial capital	<p><i>Operating Surplus Ratio</i></p> <p><i>Net Financial Liabilities Ratio</i></p> <p>Identification of a local government's financial capacity and ability to fund ongoing operations over the long-term.</p>

The Department of State Development Infrastructure, Local Government and Planning in its Financial Management has issued the 2013 Guideline to Financial Management (Sustainability). This Guideline explains the concept of sustainability and also provides guidance for calculating the relevant financial sustainability measures specified in Section 169(5) of the Local Government Regulation 2012.

The Auditor-General's 11 October 2016 report to Parliament titled '*Forecasting long-term sustainability of local government*' recommended that local governments broaden the number of ratios required to be calculated over 10 years to include the Asset Renewal Funding ratio, once local governments have improved their asset condition data. The report also indicated that local governments should make more extensive use of ratios rather than rely on those required by legislation.

As a consequence, Council enhanced the ratios it uses to report on Financial Sustainability. The Ratios added are:

- Liquidity Ratio - A measure of Council's capacity to meet its cash flow obligations as and when they fall due.



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- Council Controlled Revenue Ratio - a measure of the capacity Council has to control its revenues or alternatively the extent to which Council relies on external funding.
- Remaining Useful Life of Assets Ratio - indicates if asset lives are unrealistic or capital investment is not adequate.
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3. POLICY

To ensure the long-term financial sustainability of Western Downs Regional Council (WDRC) taking into account the needs of WDRC's communities and the financial capacity of WDRC's ratepayers, businesses and communities.

The strategy comprises four main platforms:

1. Revenue generation

A rates and charges regime that is not generally seen as onerous on ratepayers, businesses and individuals.

2. Services delivered

The services delivered by Council are reviewed and are delivered in a financially sustainable manner having regard to sound procurement and expenditure management practices.

3. Disciplined Asset Management and Investment

Council regularly reviews its asset base and manages its assets in a manner which optimises its investment over the long-term.

4. Prudent Financial Management

Council maintains a Moderate credit rating with QTC as this provides Council with the necessary discipline and flexibility in managing its business and also provides Council adequate capacity to manage shocks and the ups and downs of an economic cycle.

This is achieved by:

- Establishing and maintaining sound governance processes.
- Over the long-term (i.e. 10 years), achieving a cumulative operating surplus before capital grants and subsidies with more years having an operating surplus than years with an operating deficit.
- Considering the various options to deliver Council services and capital works. While outsourcing may represent the best option, this needs to be considered in the context of the impact on employment in the region and the level of market competition.
- Regularly reviewing the asset base to determine the future need for these assets and, if needed, utilising the optimal replacement and upgrade strategy.
- Considering the various options for delivery of the capital program including whole of life costs.



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- Weighting a preference to local contractors/firms as this better ensures the long-term economic sustainability of the region.
- Utilising borrowings, where necessary, to fund revenue producing assets and, in limited circumstances, non-revenue earning assets where there is a significant community need.
- Maintaining borrowing terms that are shorter than the estimated life of the asset.
- Maintaining capital is a priority when making financial investments.
- Where the activity/business is considered non-core, carefully considering whether it is a benefit to have Council deliver it.

Key Financial Ratios:

Ratio	Definition	Legislative Target	Council Target
Operating Surplus Ratio	Operating Surplus divided by Operating Revenues	Greater than 0%	1.0%
Net Financial Liabilities Ratio	(Total Financial liabilities less Current Assets) divided by Total Operating Revenue	Less than 60%	Less than 40%.
Asset Sustainability Ratio	Annual cash expenditure on the replacement of assets divided by annual depreciation expense	At least 90%	At least 90%. If not 90%, an increase in cash, which is at least the difference between the 90% target and the actual Asset Sustainability Ratio.
Council Controlled Revenue Ratio	Revenue that Council has control over divided by total operating revenues		Greater than 60%.
Remaining Useful Life of Assets Ratio	Property, plant and equipment/ annual depreciation		Between 30 and 40 years.
Cash and Liquid Investments Ratio	Cash and investments divided by the average monthly spend on operating expenditure including depreciation		Greater than 4 months at 31 December and 30 June each year.

