



ELM10 FINANCIAL SUSTAINABILITY POLICY

Aim	This policy establishes the financial sustainability framework for the Council. The policy is based on the Council's desire to plan for on-going financial sustainability to provide appropriate services and infrastructure for the community now and into the future. It provides the framework within which Council will achieve the aims set out in its long-term financial plan
Application	All Elected Members and Officers involved in the planning and financial management activities.
Statutory Environment	<i>Local Government Act 1995 Section 5.56(1)</i> <i>Local Government (Financial Management) Regulations Part 4</i>
Principles	Strategic Community Plan 2017 – 2027 (Desktop Review 2019) Goal 05 Inspiring Governance Objective 4 Exemplary team and work environment
Approval Date	OMC 17 December 2019 (MINUTE: 722/2019)

Financial sustainability at the Shire of Ashburton means that 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. In making this commitment, it is acknowledged that unexpected events will occur in the future and Council will plan for reasonably foreseeable contingencies, but given the inherent uncertainties about future events, it is impossible to plan for every eventuality.

The Council and relevant officers will plan and make decisions so that appropriate services and infrastructure, as outlined in the Strategic Community Plan (SCP) are provided at acceptable service levels for current and future generations in a cost effective and affordable manner.



POLICY STATEMENTS

Long-term Financial Plan

Council will adopt a 15 year Long-term Financial Plan (LTFP) that sets out the funding (revenue raising) and financing (paying for outlays) requirements for infrastructure and services to be provided to equitably meet its Strategic Plan's identified community needs and preferences and the aims contained in its Strategic Asset Management Plan. The LTFP will be based on community needs and substantial achievement of the required ratio targets for each of its primary financial sustainability indicators as set out below. This is required to meet the DLG advisory standard requirements of the Long Term Financial Plan.

<p>Operating surplus ratio</p>	<p>Net operating surplus, divided by own source Operating revenue, expressed as a percentage</p>	<p>This is an indicator of the extent to which revenues raised cover operational expenses only or available for capital funding purposes.</p>	<p>Standard is not met if the operating surplus ratio is 0%</p> <p>Achieving standard is met if the operating surplus ratio is between 0% and 15%.</p> <p>Advanced standard is met if the operating surplus ratio is greater than 15%</p>
<p>Current ratio or working capital ratio</p>	<p>Current assets divided by current liabilities. Expressed as 1:X, percentage or decimal figure * ^</p>	<p>This is a modified commercial ratio designed to focus on the liquidity position of a Local government that has arisen from past years transaction.</p>	<p>Standard is not met if this ratio is any value lower than 1 as to 1.</p> <p>Achieving standard is met if the ratio is equal to an expression of 1:1 or greater (e.g. 100% or 1.0).</p>



<p>Debt service cover ratio</p>	<p>Annual operating surplus before interest and depreciation divided by annual debt service payments (interest).* ^</p>	<p>Also known as 'debt coverage ratio', This is the ratio of cash available for servicing debt interest, principal and lease payments.</p>	<p>Standard is not met if this ratio is lower than 2. Achieving standard is met if this ratio is greater than or equal to 2. Advanced standard is met at a higher level if this ratio is greater than 5.</p>
<p>Own Source Revenue Coverage Ratio</p>	<p>Own Operating Revenue divided by Operating Expense</p>	<p>This ratio is the measurement of local government's ability to cover costs through its own revenue efforts.</p>	<p>Standard is not met if this ratio lower than 0.4 Achieving standard is met if the ratio is between 0.4 and 0.9 Advanced standard is met if the ratio is greater than 0.9</p>
<p>Asset consumption ratio (ACR)</p>	<p>Depreciated replacement cost of (written value) by current replacement costs of depreciable assets.* ^</p>	<p>This shows the written down current value of local depreciable relative to their 'new' value in up date prices.</p>	<p>Standard is not met if ratio data cannot be identified or ratio is than 50% Achieving standard is met if data can be identified and ratio is 50% or greater Standard is improving if ratio is between 60% and 75%</p>
	<p>Expressed as a percentage.</p>	<p>The ratio highlights the aged condition of the local government's stock of</p>	



<p>Asset sustainability ratio (ASR)</p>	<p>Capital expenditure on replacement or renewal of assets divided by the depreciation expense.*^</p> <p>Expressed as a percentage.</p>	<p>This measures the extent to which assets managed by the local government are being replaced as they reach the end of their useful lives.</p>	<p>Standard is not met if ratio data cannot be identified or ratio is less than 90%</p> <p>Achieving standard is met if ratio data can be calculated and ratio is 90%</p> <p>Standard is improving if ratio is between 90% and 110%</p>
<p>Asset renewal funding ratio</p>	<p>Net value of planned expenditure based on current Department guidance renewals ten years divided by net present value of the required renewals over the same period.</p> <p>Expressed as a percentage</p>	<p>This measures whether the government has the financial capacity to provide asset renewals required, continue to provide levels of asset renewals in future, additional operating income; or reductions in operating expenses; increase in net financial liabilities that are projected.</p>	<p>Standard is not met if ratio data cannot be identified or ratio is less than 75%</p> <p>Achieving standard is met if ratio data can be identified and ratio is between 75% and 95%</p> <p>Standard is improving if ratio is between 95% and 105% and the ASR falls within the range 90% and 110% and ACR falls within the range of 50% to 75%</p>

Ref: INTEGRATED PLANNING AND REPORTING ADVISORY STANDARD WA
Department of Local Government September 2016.



The Council's LTFP will be monitored and progressively revised so that all primary indicators fall within their respective target ranges and then be maintained. Where primary indicators fall outside the acceptable limits, Council will take corrective action and revise plans so that indicators return to acceptable levels within the 15 year planning period.

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

Secondary financial sustainability indicators will be developed that will be useful benchmarks or cross-checks to consider in conjunction with the primary indicators. They are not 'the rules' in themselves, but they are intended to be helpful to assess the wider impacts of plans and decisions. Comparisons may also be made with other councils or industry benchmarks, and non-financial social and community sustainability indicators will also be considered in all planning and decision-making.

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.

Management and Review

Council will manage the LTFP through the annual planning process, updating and maintaining the 15 year financial sustainability model and indicators, and the budgeting and review 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.

The 10 year financial sustainability model will be utilised on an as need basis for strategic financial proposals or financial impacts, and for the Annual Budget process. The LTFP is reviewed annually in conjunction with the updating of Strategic Community Plan (SCP), Corporate Business Plan (CBP) and the Strategic Asset Management Plan (SAMP). This review will consider Funding (rating, grants and fees and charges), Asset Management (maintenance, renewals, replacement, acquisitions, disposals) and Service Levels (operating expenditure, full cost attribution, fully commercial).



The outcomes from the LTFP will form the basis for the development of the Council's budget for the following financial year. Progress towards the goals established in the LTFP will be monitored throughout the year through review of performance against budget on a monthly basis. On a half yearly basis, the financial sustainability model and indicators will be reviewed based on current financial forecast and trends. The quality and accuracy of the financial sustainability model data will be reviewed and findings will be incorporated in the following financial year's budgeting process.