CITY OF MITCHAM

MITCHAM

FINANCIAL SUSTAINABILITY POLICY

Adopted by Council 13 February 2024

public policy

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1. PURPOSE

The purpose of this policy is to promote a financially sustainable approach to the funding of Council services in a way that enhances rather than detracts from intergenerational equity. Furthermore, this policy defines and measures the level of financial sustainability and sets the thresholds and parameters that Council decides to operate within.

The measures defined in this policy are to be used by Council in the development of the Long-Term Financial Plan, Asset Management Plans, budget reviews and other financial decisions. It outlines the measures by which Council will assess the implications of financial decisions on its financial position and financial sustainability.

2. SCOPE

This Policy applies to all future Council decisions in relation to service delivery including establishing budgets, quarterly budget reviews and individual service decisions. It serves as an indicator of the financial health of Council and articulates the self-imposed indicators and measures regarding financial sustainability.

The indicators in this policy are aimed at only assessing the internal financial position of Council. Other aspects such as affordability and service levels are informed through various alternative processes such as the Strategic Management Plan, the Annual Business Plan and the Efficiency and Effectiveness program.

This Policy cannot prevent or limit any future decision of Council.

3. STRATEGIC PLAN ALIGNMENT

This Policy is in alignment with Council's Strategic Management Plan Mitcham 2030 (The Plan), which outlines the long-term goals and community aspirations that the Council aims to achieve.

This Policy serves as the financial framework to fulfill the long-term objectives outlined in The Plan. All strategic initiatives put forth in The Plan are to be assessed considering the financial principles and indicators detailed in this policy, thereby ensuring financial sustainability and intergenerational equity.

4. DEFINITIONS

Asset Annuity

This is the average annual amount required for the replacement of all of Council's existing assets that are due over the next 20 years. For example, if Council had three assets due for replacement over the next 20 years at $8 million each (a total of $24 million) then the Asset Annuity would be $24 million / 20 years = $1.2 million per year.

Capital

Expenditure or income that relates to the creation, renewal or upgrade of an asset.

Cash Flow from Operations

The amount of cash generated by Council each year from its operations less the operating payments made to suppliers and employees related to funding those operations.

Council Controlled Income

Income that Council has direct control over to influence namely rates and user charges.

Depreciation

The annual allocation of the capital cost of an asset over its useful life is included in the operating cost of the service that the asset is providing to reflect the use of an asset's service potential, i.e. the depreciation charge of a $10 asset that lasts 10 years would be $1 per year charged to the operating cost of the service that the asset is providing.

Infrastructure

A collective term used to describe long-lived assets such as roads, footpaths, stormwater pipes and buildings that are utilised by Council to provide services.

Intergenerational Equity

The concept that those who are using the benefits of a service provided by Council should contribute proportionally to its cost. In terms of a service provided by a long-lived asset such as a public pool, this means that present and future users of the service should pay for the service equally over the life of the asset.

Model Financial Statements

A format prescribed by the Minister responsible for Local Government in which Council must present its Annual Financial Statements, budgets and budget reviews including the use of three industry mandated indicators. The model financial statements represent the *minimum* with regards to detail and disclosure.

Net Financial Liabilities

Council's total liabilities including reserves less its financial assets (assets readily convertible to cash) such as cash at bank and receivables.

Net Interest Expense

Council's annual interest expense less annual interest revenue.

Recurrent Operating Income

Income earnt each year that funds the day-day recurrent operating services such as Rates, Statutory & User Charges, Grants and contributions.

Recurrent Operating Services

A service that is provided by Council each year either by choice or by legislative requirement. For the delivery of day-to-day recurrent operating services, the benefit of the provision of the service is consumed at the point the service is delivered and this pattern is repeated each year.

Operating

Expenditure or income that relates to the day-to-day operations of a service.

Operating Projects

A one-off short-term operating project is a planned service or project that is to be delivered over a short timeframe (1-2 years). For the delivery of one-off or short-term operating projects (services), the benefit of the provision of the service is still consumed at the point the service is delivered and this pattern is repeated each year for the duration of the project.

5. PRINCIPLES

Financial Sustainability[1]

As a result of the 2005 *Independent Inquiry into the Financial Sustainability of Local Government* the Australian Local Government Association *(LGA)* by resolution at its December 2006 National General Assembly adopted the following definition of financial sustainability:

A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

Given Councils are perpetual corporations that provide services for generation after generation, upholding the principle of intergenerational equity is at the heart of being financial sustainable.

Intergenerational Equity

Intergenerational equity in a local government finance context can be described in the following way:

Ratepayers in each time period should (as a group) contribute to public expenditures from which they derive benefits in accordance with their share of those benefits. In other words, they should 'pay their way', without either subsidising, or being subsidised by ratepayers in other time periods.

There are three main financial elements that can impact on achieving intergenerational equity:

1. Operating Surplus / (Deficit) – is Council fully funding current services?
2. Debt – is Council spreading the cost of services over the life of the assets they provide?
3. Asset Renewal – is Council renewing its assets to maintain its service level?

This policy establishes the service funding principles that support intergeneration equity and the financial indicators to measure the level of financial sustainability.

Risk Management

To ensure long-term financial sustainability, the Council recognises the need to identify, assess, and manage financial risks. These risks may include economic downturns, infrastructure failures, and unexpected costs. A structured risk management approach will be integrated into the Long-Term Financial Plan. Furthermore, the development of this plan will feature scenario planning representing the identified risks.

Council commits to a realistic financial outlook by avoiding the inclusion of unrealistic savings targets in its Long-Term Plan's forward projections. The management of costs and savings targets will be viewed over a rolling four-year period to account for economic volatility.

[1] LGA 'Financial Sustainability' Information Paper No 1 – Financial Sustainability, 2019 (LGA Website – Financial Sustainability Resources)

In line with its commitment to sustainable financial planning, the Council will incorporate new and upgraded capital budget allocations into the Long-Term Financial Plan as part of its strategic management process. These future allocations can reflect emerging opportunities and align with historical spending trends, providing a realistic view of capital and debt projections. These allocations will undergo review and integration during each Strategic Management Plan review cycle. All new capital allocations proposed in the Long-Term Financial Plan must be formally adopted annually through the Annual Business Plan.

6. POLICY STATEMENT

Service funding principles

The following funding principles ensure ratepayers 'pay their way', without either subsidising, or being subsidised by ratepayers in other time periods.

It is important to note that these principles are to be applied over the medium to long term (4-10 years) as one-off economic shocks may require a short-term variation to reduce the rates burden on the community.

Service Funding Principle 1 - Recurrent Operating Services

Recurrent operating services should only be funded by recurrent operating income.

Borrowings should not be used to fund recurrent operating services as this creates a liability that will require ratepayers in future years to pay without receiving any benefit from the services delivered.

Service Funding Principle 2 – Operating Projects

One-off or short-term operating projects (services) should only be funded with either:

- Recurrent operating income sources, moving on to deliver a different one-off or short-term operating service at the conclusion of the current one; or
- One-off operating income sources that match the timeframe of the one-off or short-term operating service.

In instances, where long-term benefits significantly outweigh associated risks and costs, borrowings may be considered for funding annual operating projects. Such projects should either present clear and quantifiable long-term advantages warranting the initial debt—like an energy-saving technology forecasted to cut down utility expenditures—or they should produce a revenue stream or cost-saving offsetting the debt within an acceptable period, such as a software enhancement that streamlines processes and thereby reduces labour expenses. In such cases, a cost-benefit analysis must be conducted and approved by Council before proceeding with the borrowing when the cost is greater than $150,000.

Service Funding Principle 3 – Capital Expenditure: New

The creation of new infrastructure and upgrading of existing infrastructure (Capital Expenditure) which, therefore, results in a new service or an increase to an existing service should be funded in either of the following ways:

- Borrowings to cover the initial capital investment costs for asset creation and ongoing operating income sources to cover the operating costs of the recurrent service provision over the life of the asset including maintenance, operations, interest and depreciation; and / or
- Proceeds from the sale of surplus assets to cover the initial capital investment costs for asset creation and ongoing operating income sources to cover the operating costs of the recurrent service provision including maintenance, operations, interest and depreciation.

The creation of new infrastructure or upgrade of existing infrastructure should not occur unless it is accompanied by a recurrent operating income source to cover the operating costs of the recurrent service provision over the same timeframe as the assets service life.

Service Funding Principle 4 – Capital Expenditure: Renewal

The Asset Annuity requirements of Council's infrastructure and assets should be funded with recurrent operating income sources.

This is on the basis that the Asset Annuity is the annual amount required to maintain Council services delivered by assets and reinforces the principle of intergenerational equity.

Even with the Asset Annuity being funded from recurrent sources of income there is still the requirement to fund the initial capital cost of renewing assets as and when they fall due. This is because there will be timing differences between the lumpy capital requirements from year-to-year and the constant annual Asset Annuity amount being funded by recurrent operating revenue.

In some years the capital requirements will be less than the Asset Annuity (a cash surplus is the result) and in some years the capital requirement will be greater than the annuity (a cash deficit is the result), all other things being equal.

Measuring sustainability
Council will use five primary indicators to assess and monitor financial sustainability and the implications of budgetary decisions.

As part of the financial sustainability enquiry the Local Government Association (LGA), through the model financial statements, has mandated the reporting of three financial indicators which in some cases are slightly different from the financial indicators outlined in this policy.

Whilst it is a requirement for Council to publish the LGA's Industry Ratios in its Annual Report, Long Term Financial Plan and Financial Statements there is no limitation placed on the number and type of ratios that Council may use to assess and measure its own financial sustainability.

Any differences between the industry standard ratios required by the LGA and Council's key financial indicators detailed in this policy are outlined under each key measure below.

Financial Indicator 1 - Operating Result Ratio

Calculated as:

Operating result expressed as a percentage of Council total operating income.

Purpose:

This ratio is designed to identify the portion of Council's operating income that is contributing to a surplus result, or alternatively the additional portion of Council's operating income needed to address a deficit result. The ratio expresses the operating result as a percentage of Council's total operating income.

Sustainability Target:

Between 1% and 4% across the 10 year Long Term Financial Plan term

Additional Visualisation

In addition to the above Ratio, Council will include, as part of its Long-Term Financial Plan projections the operating result (excluding non-cash gains / losses from equity accounted subsidiaries) expressed as a percentage of Council rates income, *less* the Landscape Levy. For improved clarity and comprehension, this information will be displayed on the same visualisation as the above Ratio.

Financial Indicator 2 – Net Financial Liabilities Ratio

Calculated as:

Net financial liabilities and reserves expressed as a percentage of Council's total operating income.

Purpose:

This ratio measures Council's net financial liabilities as a percentage of its total operating income. It measures the absolute level of Council debt (including potential debt in the form of undrawn reserves) and articulates how much of Council's annual operating income would be required to repay that debt if Council were to wind up.

Sustainability Target:

No more than 80% over the 10 year Long-Term Financial Plan.

Additional Visualisation

In addition to the above Ratio, Council will include, as part of its Long-Term Financial Plan projections the Net financial liabilities and reserves expressed as a percentage of rates income, *less* the Landscape Levy. For improved clarity and comprehension, this information will be displayed on the same visualisation as the above Ratio.

Financial Indicator 3 – Asset Renewal Funding Ratio

Calculated as:

Amount spent on replacement of existing assets expressed as a percentage of the amount planned to be spent according to the endorsed Asset Management Plans and the latest renewal Schedules.

Purpose:

This indicator measures the extent to which Council is replacing assets compared to the rate at which it needs to be replacing assets to ensure consistent service delivery. In effect it measures whether Council is spending the amount required annually to deliver the Asset Management Plans and Schedules.

Sustainability Target:

No less than 100% across the 10 year Long Term Financial Plan term

LGA Mandated Indicator

This indicator is consistent with the mandated indicator recommended by the LGA which suggests a target of greater than 90% but less than 110%.

Financial Indicator 4 – Asset Renewal Cashflow Ratio

Calculated as:

Cash flow from operations expressed as a percentage of the net expenditure on renewal/replacement of assets.

Purpose:

This indicator measures whether Council is generating enough cash from its operations to cover the replacement of assets over time. This ensures that Council is delivering intergenerational equity across the lifecycle of asset replacement.

Sustainability Target:

No less than 100% on average over the 10 year Long Term Financial Plan term

LGA Mandated Indicator

This indicator (or an equivalent) is not included in those mandated as part of the model financial statements; however, Council believes it is an important indicator to ensure that Council is not only replacing assets at the rate needed (Financial Indicator 3), but that asset replacement is being funded from sustainable sources of income.

Financial Indicator 5 - Interest Coverage Ratio

Calculated as:

Net interest expense expressed as a percentage of Council rates income, less Landscape levy.

Purpose:

This indicator measures the affordability of Council's debt and articulates the portion of Council's rates income that is being used to pay interest. When considered in conjunction with Financial Indicator 2 (Net Financial Liabilities Ratio) this ratio forms part of a picture in terms of the level and affordability of Council's debt.

Sustainability Target:

No more than 6% over the 10 year Long Term Financial Plan term

LGA Mandated Indicator

This indicator (or an equivalent) is not included in those mandated as part of the model financial statements; however, Council believes it is an important indicator to ensure that Council holds an affordable level of debt.

7. REPORTING

These prescribed financial indicators will be reported each year as part of the Long-Term Financial Plan and Annual Business Plan. Thereafter, at every Budget Review, these ratios will be updated based on the revised budget for the year. The report will include the adopted ratios which will be compared to revised ratios.

In addition, these ratios (based on actual results) will also be reported on through the Annual Report each year. Council will continue to also publish the mandated ratios within its financial documents and as part of the Annual Financial Statements.

Any changes to policy targets are to be expressly stated for Council approval.

Council will explicitly consider and note decisions that result in exceeding the targets set out in this policy as well as detailing the actions and timeframe required to return within policy targets.

8. POLICY REVIEW

The Council is committed to ensuring this policy and supporting framework remains current and effective. This Policy will be subject to review every four (4) years or sooner at the discretion of the relevant General Manager. The CEO has delegated authority to endorse any amendments to the Policy that do not vary the intent of the policy.

9. VERSION HISTORY

VERSION	AUTHOR(S) POSITION	CHANGES	DATE
1.0	Manager Finance & Procurement		April 2020
1.1	Manager Finance & Procurement	Updated as per recommendations from Audit Committee Meeting 14th May 2020	May 2020
1.2	Manager Finance & Procurement	Adopted by Council Removed Draft	September 2020
2.0	Manager Finance & Rates	Updated as per preliminary discussion with Council	October 2023
2.1	Manager Finance & Rates	Updated as per recommendations from Audit and Risk Committee Meeting 6 December 2023	January 2024

10. DOCUMENT CONTROL

Responsible Department	Finance and Rates		
Delegations Apply	NO		
Classification	Financial Planning		
Applicable legislation	Local Government Act 1999		
Related Policies & Corporate Documents	Budget Management Framework		
Additional references	Policy addendum - Financial Sustainability Discussion Paper 2020		
Endorsed by Council:		**Item No:**	
Effective Date:		**Next Review Date:**	March 2028
ECM Record Number:			

Addendum to Policy

City of Mitcham Financial Sustainability Discussion Paper – October 2023

Background

Financial sustainability defined[2]

The word 'sustainable' is most often used in the context of environmental management. We can easily understand, for example, that fossil fuels such as oil and coal are finite resources. Therefore, considerable effort is devoted to seeking alternative renewable energy resources, along with energy saving practices and technologies, to try to make our energy consumption practices sustainable. In general terms we use 'sustainable' to mean that we can continue our current practices.

'Financial sustainability' is a similar concept. For community members, financial sustainability is probably thought of as whether we can afford our current lifestyle. For those of us who own homes or businesses, we may think in longer terms as to whether we will be able to repay debts by the time we retire. This type of thinking is practical for individuals or families where long-term planning is probably in the order of 15-20 years.

The concepts most people use in their personal and business lives are basically the same as those that should be applied to Local Government but need some modification. This is because Councils are perpetual corporations which acquire and manage a stock of financial and physical assets (including renewing and disposing of individual items) in order to provide services for generation after generation of residents and ratepayers.

Councils provide the legal framework by which communities own infrastructure and other assets and by which they act as a collective. Much Local Government infrastructure has a life of 30, 50 or in some cases well over 100 years. While individuals involved may come and go, Local Government continues like State and Federal governments, perpetually.

For Local Government, considering financial sustainability poses the question:

Can we continue the sort of revenue and expenditure patterns of recent years while maintaining the levels of service expected by the community?

As a result of the 2005 Independent Inquiry into the Financial Sustainability of Local Government the Australian Local Government Association by resolution at its December 2006 National General Assembly adopted the following definition of financial sustainability:

A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

Given Councils are perpetual corporations that provide services for generation after generation, upholding the principle of intergenerational equity is at the heart of being financial sustainable.

Intergenerational Equity

Historically Councils had large annual shortfalls against the optimum level of expenditure needed for maintaining and renewing existing infrastructure. If Councils operated with very

[2] LGA 'Financial Sustainability' Information Paper No 1 – Financial Sustainability, 2019 (LGA Website)

low levels of debt, then they would be trying to rebuild long-lasting infrastructure backlog out of current revenue rather than recovering the cost over the life of the infrastructure.
In addition to not adequately funding infrastructure renewal, many South Australian Councils were also running operating deficits, thus ongoing services were not being fully funded by the generation receiving the services.
In effect, these circumstances lead to either future generations having to pay for infrastructure backlogs, paying off the debt accrued due to deficits or both. This issue is often referred to as 'intergenerational equity'.
Intergenerational equity in a local government finance context can be described in the following way:

Ratepayers in each time period should (as a group) contribute to public expenditures from which they derive benefits in accordance with their share of those benefits. In other words, they should 'pay their way', without either subsidising, or being subsidised by ratepayers in other time periods.

An example of adhering to the intergenerational equity principle is when Councils borrow to construct long term infrastructure. The debt is then repaid over the lifetime of the asset by all the generations that benefit from it. It would not be fair for today's ratepayers to fully fund an asset that might be used by ratepayers many decades into the future.
There are three main financial elements that can impact on achieving intergenerational equity:
Operating Surplus / (Deficit) – is Council fully funding current services?
Debt – is Council spreading the cost of services over the life of the assets they provide?
Asset Renewal – Is Council renewing its assets to maintain its service level?

Operating Surplus / (Deficit)

An operating surplus (or deficit) arises when operating income exceeds (or is less than) operating expenses. This requires current day citizens to fully meet the cost of services provided for them by their Council.
If Council is not generating an operating surplus in most periods, then it is likely borrowing to fund day to day activities or it's not renewing its assets optimally or is selling non surplus community assets.
In all cases future generations would be negatively impacted by the existing generation not paying all the costs of current services.

Debt

Debt can either work for or against intergenerational equity depending on how the debt originated.
The terminology in relation to "good" debt versus "bad" debt has been used as part of public debate to distinguish between good and bad government debt. Good versus bad debt doesn't refer to the amount or level of debt it's what it was used for.
Good debt has often been described as debt which is taken on to invest in infrastructure (e.g., to enhance productivity) compared to bad debt which is incurred for current spending purposes.

<u>Good debt</u>

Local governments in South Australia have the capacity to borrow funds at very competitive rates through the Local Government Financing Authority. Local Governments also have a strong and stable revenue base through rates revenues.
Local government debt will often include borrowing funds to invest in community assets, which return a community benefit. For Mitcham, this includes various community-based assets including Libraries, Community Hubs and sporting facilities. Whilst these community-based assets require one-off capital funds upfront and ongoing operating funds for maintenance and debt repayment, these developments have a community benefit to them.

<u>Bad debt</u>

Using debt to fund operating deficits is considered to be "bad" debt. Effectively, it is burdening future generations with the cost of services provided in the past.

If debt continues to increase without enough planning, there will be a point in time where the debt level will restrict Council's ability to provide services at the current level, impacting future generations.

Debt Level

For asset-intensive organisations like Councils, borrowings are a valid and appropriate option to help finance ongoing infrastructure requirements, particularly when acquiring new assets or enhancing existing assets to provide a higher, affordable level of services. The reality is that some well-managed Councils will need more debt than others at times. To pay for its infrastructure requirements a Council with a peak in development activity and expenditure needs associated with rapid growth or reducing an infrastructure backlog is likely to need to borrow more than a mature Council with little growth and no backlog, just as a first home buyer is likely to need to borrow more than someone who purchased their home many years ago.

There is no specific amount of debt that is 'right' for a Council. Whether a Council has too much debt, or can afford more, depends on:

- its community's needs for services,
- the Council's existing level of operating costs relative to revenue; and
- the Council's willingness and capacity to raise additional revenue if required.

Asset Renewal

Renewal and replacement expenditure is major work which does not increase the asset's design capacity but restores, rehabilitates, replaces or renews an existing asset to its original service potential.

Council exists to provide services. Some of these services are provided by infrastructure assets. The goal in managing infrastructure assets is to meet the defined level of service in the most cost-effective manner for present and future consumers.

Providing these services in a sustainable manner requires matching of projected asset renewal and replacement expenditure to meet agreed service levels with the corresponding capital works program accommodated in the Long-Term Financial Plan.

Any gap between asset renewal/replacement expenditure and amounts accommodated in the budget will most likely result in a service level decline and an infrastructure backlog. The creation of a backlog burdens future generation with higher costs and or lower service level than the current generation.

Financial Sustainability Principles

The following service funding principles are recommended over the medium to long term (4-10 years) to ensure long term financial sustainability and to uphold the principle of intergenerational equity. Council may be required to vary these principles in the short-term as a result of one-off economic shocks to reduce the financial burden on the community.

Recurrent Operating Services

A recurrent operating service is a service that is provided by Council each year either by choice or by legislative requirement. For the delivery of day-to-day recurrent operating services, the benefit of the provision of the service is consumed at the point the service is delivered and this pattern is repeated each year. This requires an ongoing source of income to match the consumption of the service every year.

Service Funding Principle 1

Recurrent operating services should only be funded by recurrent operating income such as rates, grants, statutory charges and user charges.

Borrowings should not be used to fund recurrent operating services as this creates a liability that will require ratepayers in future years to pay without receiving any benefit from the services delivered.

Cash from the sale of surplus assets should also not be used to fund recurrent operating services as it is not an income stream. The sale of an asset is a one-off capital cash source and, therefore, cannot fund the ongoing delivery of a service year-by-year.

One-off or Short-Term Operating Projects (Services)

A one-off short-term operating project is a service or project that is to be delivered over a short timeframe (1-2 years). For the delivery of one-off or short-term operating projects (services), the benefit of the provision of the service is still consumed at the point the service is delivered and this pattern is repeated each year for the duration of the project.

This requires a source of income to match the consumption of the service over the timeframe of the project.

Service Funding Principle 2

One-off or short-term operating projects (services) should only be funded with either:

- **Recurrent operating income sources such as rates, grants, statutory charges and user charges, moving on to deliver a different one-off or short-term operating service at the conclusion of the current one; or**
- **One-off operating income sources that match the timeframe of the one-off or short-term operating service such as grants and external contributions.**

Borrowings should not be used to fund one-off or short-term operating services as this creates a liability that will require future generations to pay without receiving any benefit from the services delivered.

Capital Expenditure – New

The delivery of recurrent operating services through infrastructure (assets) often occurs over long periods of time (i.e., a library service is provided using a library building and

other IT infrastructure). There is usually an upfront investment required to create the asset which, if funded from operating income, would place an unfair burden on the current users of the asset.

Whilst there remains the requirement to fund the provision of the assets recurrent operating service with operating income, this should be done over the same timeframe as the assets service life.

Service Funding Principle 3

The creation of new infrastructure and upgrading of existing infrastructure (Capital Expenditure) which, therefore, results in a new service or an increase to an existing service should be funded in either of the following ways:

- **Borrowings to cover the initial capital investment costs for asset creation and ongoing operating income sources such as rates, grants, statutory charges and user charges to cover the operating costs of the recurrent service provision including maintenance, operations, interest and depreciation; and / or**

- **Proceeds from the sale of surplus assets to cover the initial capital investment costs for asset creation and ongoing operating income sources such as rates, grants, statutory charges and user charges to cover the operating costs of the recurrent service provision including maintenance, operations, interest and depreciation.**

The creation of new infrastructure or upgrade of existing infrastructure should not occur unless it is accompanied by a recurrent operating income source to cover the operating costs of the recurrent service provision including maintenance, operations, interest and depreciation.

Capital Expenditure - Renewal

The delivery of recurrent operating services through infrastructure (assets) often occurs over long periods of time (i.e., a library service is provided using a library building and other IT infrastructure). At the end of an assets service life, it would normally need to be renewed to ensure the service it's providing continues. This creates a new upfront investment requirement to re-establish the assets service life.

This upfront investment is then amortised through Council's financial reports in the form of depreciation over the life of the asset.

With regard to the perpetuity of service provision from assets the important consideration is the average amount required into the future (per annum) to replace Council's assets as and when they fall due. This is known as the Asset Annuity and is the sum of all future planned replacement from Council's Asset Management Plans spread evenly over time.

The Asset Annuity is the forward-looking requirement of Council's asset renewal requirements; whereas depreciation is an historic view of what Council has put in place. For financial sustainability purposes and intergenerational equity purposes the Asset Annuity is more relevant.

Service Funding Principle 4

The Asset Annuity requirements of Council's infrastructure and assets should be funded with recurrent operating income sources such as rates, grants, statutory charges and user charges.

This is on the basis that the Asset Annuity is the annual amount required to maintain Council services delivered by assets and reinforces the principle of intergenerational equity.

Even with the Asset Annuity being funded from recurrent sources of income there is still the requirement to fund the initial capital cost of renewing assets as and when they fall due. This is because there will be timing differences between the lumpy capital requirements from year-to-year and the constant annual Asset Annuity amount being funded by recurrent operating revenue.

In some years the capital requirements will be less than the Asset Annuity (a cash surplus is the result) and in some years the capital requirement will be greater than the annuity (a cash deficit is the result), all other things being equal.

Measuring financial sustainability

The 2005 Independent Inquiry into the Financial Sustainability of Local Government recommended that a Council's long-term financial sustainability was to be assessed using a standard set of key financial indicators.

South Australia adopted and mandated the reporting of three key financial indicators, covering each Council's:

- financial *performance*;
- financial *position*; and
- asset management performance.

Whilst it is a requirement for Council to publish the LGA's Industry Ratios in its Annual Report, Long Term Financial Plan and Financial Statements there is no limitation placed on the number and type of ratios that Council may use to assess and measure its own financial sustainability.

Council currently uses five indicators, three based on, but slightly different to the mandated ratios and two additional indicators that give further insight into the sustainability of Council. These indicators address intergenerational equity and the principles discussed above.

The indicators assess and monitor financial sustainability and the implications of budgetary decisions. Council may also utilise several other financial indicators and measures on an as needs basis to assess financial sustainability.

Any differences between the industry standard measures ratios required by the LGA and Council's key financial measures are outlined under each key measure below. Council will continue to also publish the mandated ratios within its financial documents.

The policy states that if Council projects to exceed any of its self-imposed sustainability targets below, Council will explicitly consider and note these decisions as well as detailing the actions and timeframe required to return within policy targets.

Financial Indicator 1 - Operating Result Ratio

Calculated as:
Operating result (excluding non-cash gains / losses from equity accounted subsidiaries) expressed as a percentage Council rates income, less Landscape levy.
Purpose:
This ratio is designed to identify the portion of Council's rates (the main source of Council controlled income) that is contributing to a surplus result, or alternatively the additional portion of Council's rates needed to address a deficit result. The ratio expresses the operating result as a percentage of Council's rates.
Sustainability Target:
Between 1% and 4% across the 10-year Long Term Financial Plan term
In general, Council should not be targeting operating deficits excluding subsidiaries, nor should it be targeting large operating surpluses. Both negatively affect intergenerational equity.
Targeting a surplus between 1-4% buffers Council from external economic shocks and increases the ability to repay debt.
The difference between this Operating Result Ratio and the mandated ratio is the use of operating income instead of rates income with a suggested target of 0-10%. Council considers it is more appropriate to have regard for only rates income and not all sources of income which are either beyond its control or directly ties to other expenditure. Council also considers that running operating surpluses of 10% of total income is excessive and works against intergenerational equity.
Figure 1: Current 2023/24 Adopted Long Term Financial Plan Projection – Underlying Operating Result Ratio

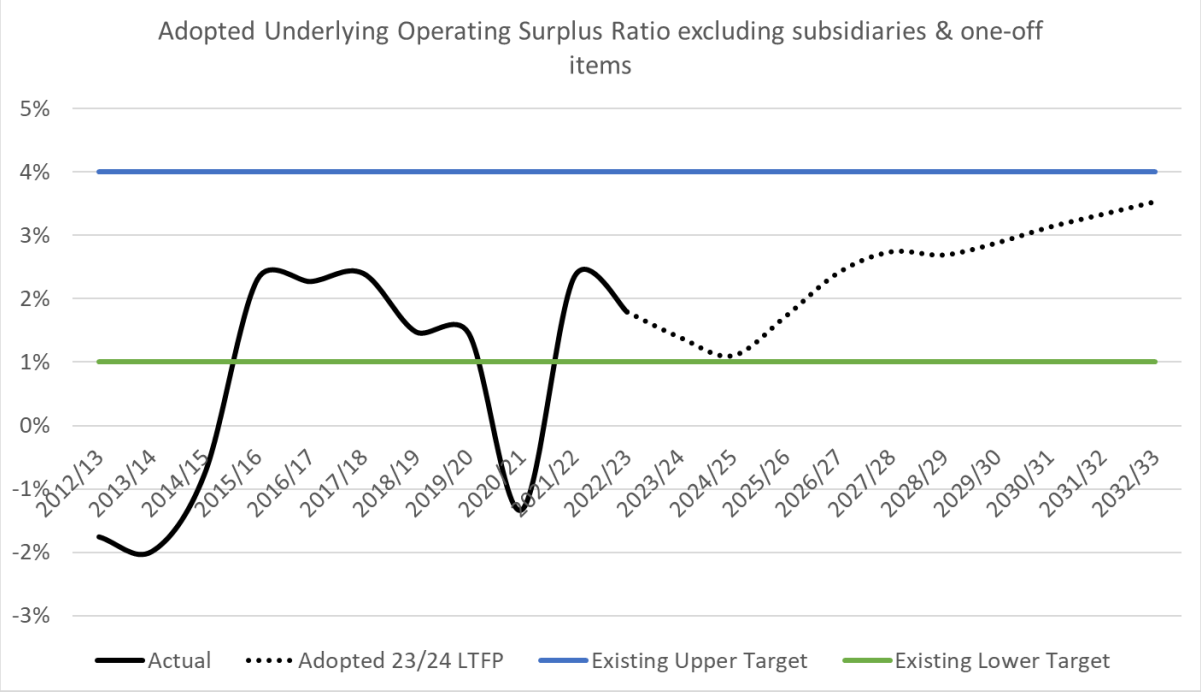


Figure 1 shows Council improving its operating result from 2009/10 and targeting a surplus ratio of around 2% after the 2020/21 deficit position as a result of the COVID-19 response.
Figure 2: *Headline* Operating Surplus (Deficit) to *Rates* Ratio – Council Benchmarking

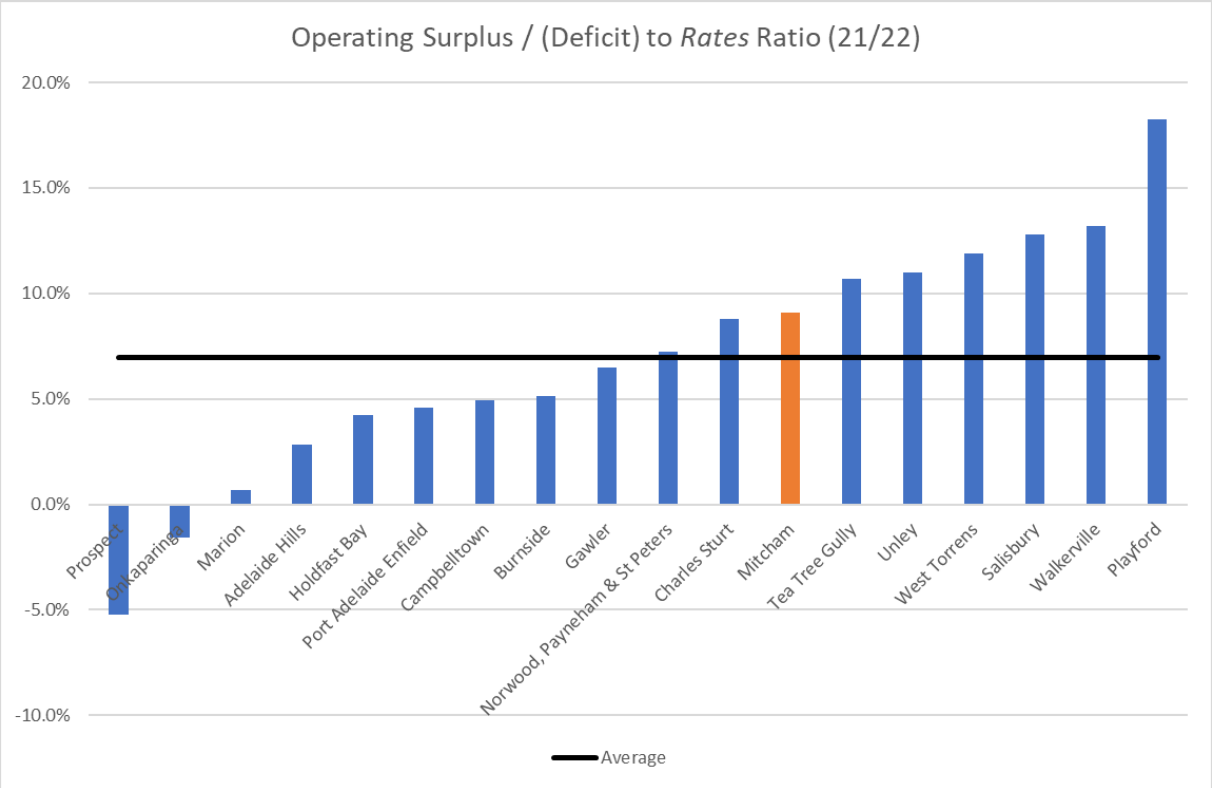


Figure 2 indicates that nearly all council returned a *headline* surplus in 2021/22 with Mitcham slightly above the average. *The above figure is Council's headline operating result as a ratio of rates income (less Landscape Levy) as per Council's chosen operating result ratio. It is different to the mandated ratio which compares operating result to total operating income ratio required by the model financial statements.*

Financial Indicator 2 – Net Financial Liabilities Ratio

Calculated as:

Net financial liabilities and reserves expressed as a percentage of Council rates income, less Landscape levy.

Purpose:

This ratio measures Council's net financial liabilities as a percentage of its rates income. It measures the absolute level of Council debt (including potential debt in the form of undrawn reserves) and articulates how much of Council's annual rates income would be required to repay that debt if Council were to wind up.

Any organisation involved in long term projects, perpetual service delivery and asset creation requires access to debt. Debt is a healthy source of finance if used appropriately and for the right purpose and if associated with an income source to facilitate its repayment over time. Total debt should not be too low or too high to create a negative impact on intergenerational equity.

If total debt is too high it is arguable that current ratepayers are not paying their way, leaving too much of the burden to future generations. Equally, if total debt is too low it is arguable that current ratepayers are being asked to pay too much of the burden at the benefit of future ratepayers, or alternatively that infrastructure renewal is being deferred and assets run down for future generations to deal with.

It is also important to note that when considering the net financial liabilities as a percentage of rates income, Council is a perpetual organisation that exists forever with a secure and perpetual income source. This is different to considering an individual's level of debt as a portion of their discretionary income as the individual has a finite working life and, therefore, a finite source of income.

Sustainability Target:

No more than 60% over the 10 year Long Term Financial Plan term with ability to increase to 80% in relation to projects / investments that Council considers being of strategic significance.

In general, Council should be managing a level of debt to ensure the best balance between current and future ratepayers for long-lived infrastructure costs, thus delivering intergenerational equity.

The difference between this indicator and the industry mandated indicator in the model financial statements is that the industry mandated indicator uses total operating income as the denominator with a suggested upper target of 100%. (The equivalent upper target ratio would be approximately 120%)

Council considers it more appropriate and conservative to only use rates income as other operating income is generally tied to specific expenditure requirements and, therefore, is not available to repay Council's debt.

Figure 3: Current 2023/24 Adopted Long Term Financial Plan Projection – Net Financial Liabilities Ratio

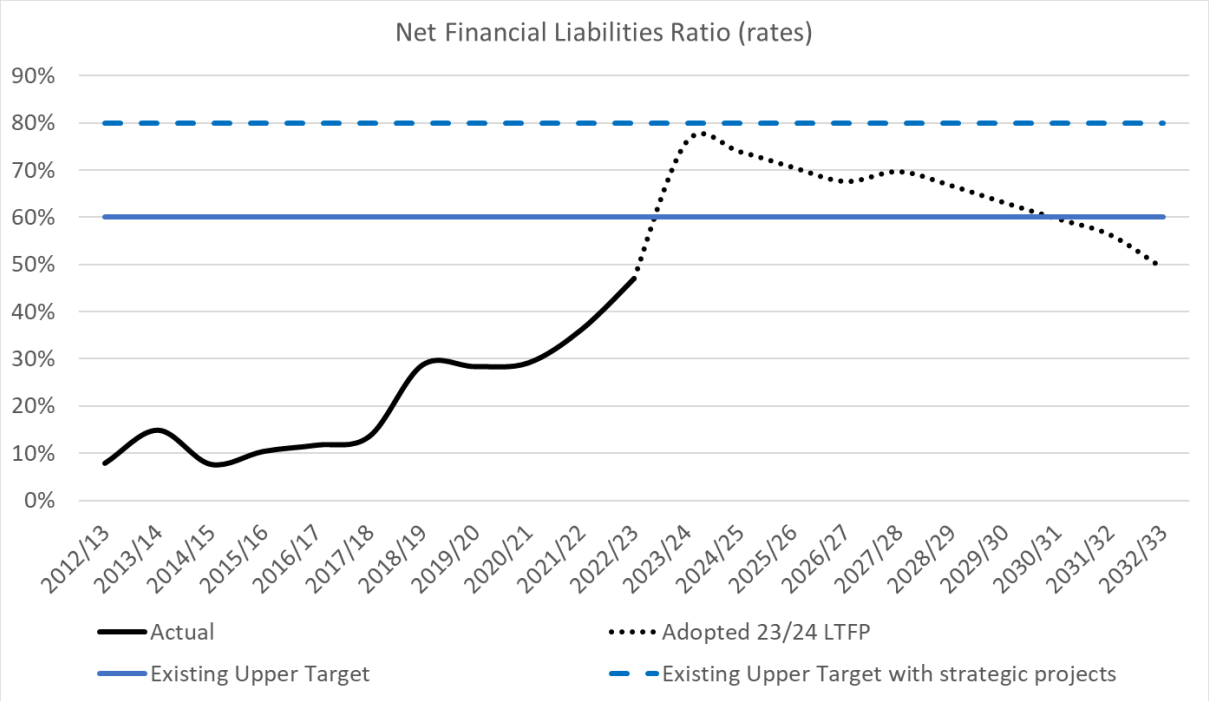


Figure 3 above highlights Council's historically low levels of debt trending up following the identification of Council's significant asset renewal backlog. Preceding this was a sustained period of low debt accompanied by an underfunding of asset renewal which generated a substantial 'debt' in the form of asset condition rather than cash. Debt levels are projected to increase as a result of reducing this asset backlog and new capital projects.

As of the adopted 2023/24 Long-Term Financial Plan, the Council is nearing the threshold of its established upper sustainability debt target. To remain within this target, the Council must consider options that may include slowing the rate of new asset acquisitions, generating higher cash surpluses or selling assets that are deemed surplus to requirements. Alternatively, if the Council opts not to pursue these actions, it will be necessary to re-evaluate and potentially raise the existing sustainable debt target.

Figure 4: Net Financial Liabilities Ratio (*rates income*) – Council Benchmarking

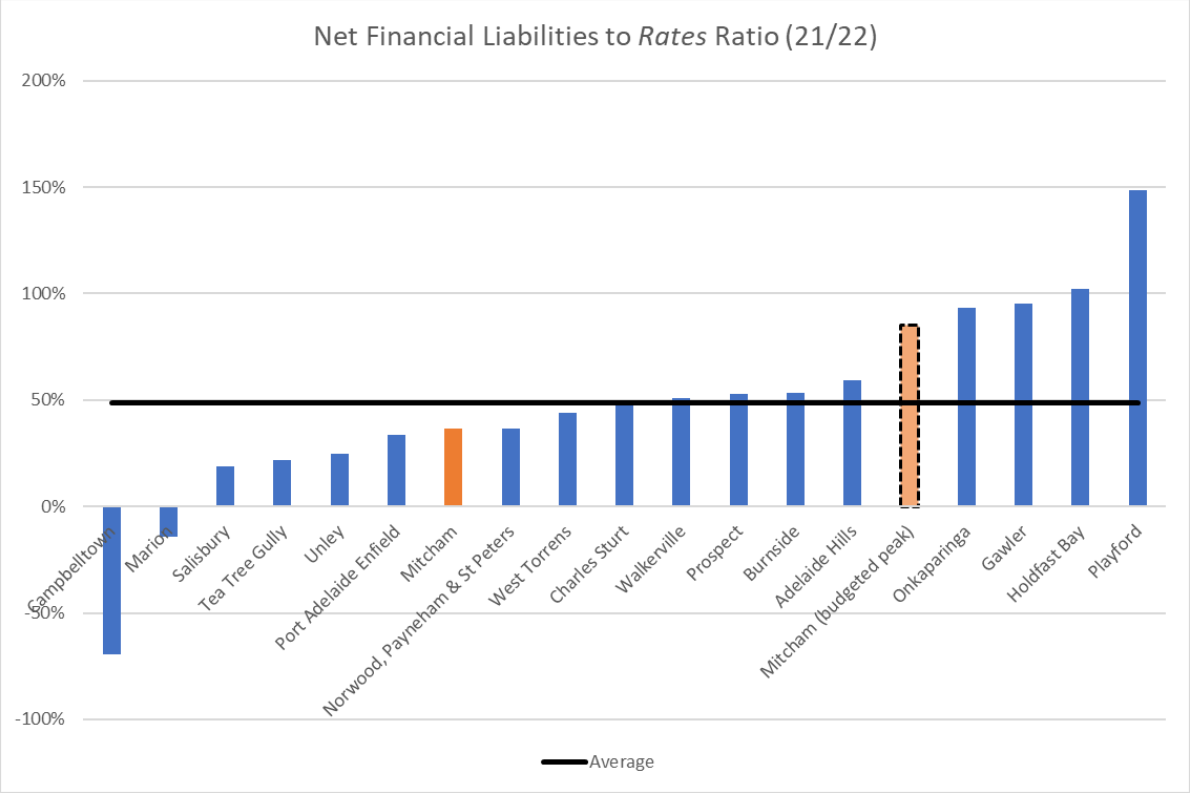


Figure 4 above indicates that Mitcham in 2021/22 had relatively low levels of debt compared to most other Councils. The current budgeted NFL peak, as of the first budget review 2023/24, is shown in dashed orange.

The above figure is debt as a ratio of rates income as per Council's chosen debt ratio. It is different to the mandated debt to total operating income ratio required by the model financial statements.

Financial Indicator 3 - Asset Renewal Funding

Calculated as:
Amount spent on replacement of existing assets expressed as a percentage of the amount planned to be spent according to the endorsed Asset Management Plans and Schedules
Purpose:
This indicator measures the extent to which Council is replacing assets compared to the rate at which it needs to be replacing assets to ensure consistent service delivery. In effect it measures whether Council is spending the amount required annually to deliver the Asset Management Plans and Schedules.
Council's Asset Management Plans and Schedules determine, for the given level of service, when assets need to be replaced to ensure that the given level of service is maintained. If Council is achieving 100% over time for this measure, then it is maintaining the service levels delivered by assets and is maintaining asset condition as agreed in the Asset Management Plans and Schedules.
It is important to note that this indicator does not measure if Council is funding the asset replacement requirements from sustainable sources (Financial Indicator 4) but is simply measuring if Council is performing the required work to replace assets and maintain the level of service and asset conditions.
Sustainability Target:
No less than 100% across the 10-year Long Term Financial Plan term.
In general, Council should be targeting around 100% of the replacement works determined by the Asset Management Plans to ensure consistent service delivery. To allow for variation, it is considered that this target is most appropriately applied over the 10-year Long Term Financial Plan period.
This indicator is consistent with the mandated indicator recommended by the LGA which prescribe a target of 100%.

Use of historic Asset Management Plans vs Original Budget
Our Asset Management Plans renewal figures used in the above ratio are updated yearly, taking into account condition assessments of our assets and other relevant evaluations. This update also incorporates not only re-budgeted capital works that were not completed in the previous financial year, but also newly introduced capital renewal works resulting from grant opportunities (brought forward capital). Administration do not use historical Asste Management Plan figures to calculate the Ratio; rather, the focus is on current assessments and needs. This does inflate the number *reducing* the ratio, showing a much more conservative picture.
Administration believes utilising historical figures would distort the ratio and wouldn't accurately represent the asset renewal needs for the forthcoming year. For example, matching grants often allow Council to bring forward certain renewal activities, making the figures not directly comparable year-to-year.
The ratio is designed to reflect the asset renewal needs as identified by Council's assets department for maintaining existing service levels. When the ratio hits 100%, it means Council has adequately funded the asset renewals needed in total at that time. The ratio is not cumulative, given the incorporation of re-budgets from the previous year and new grant-funded projects, therefore a result of less than 100% in one year does not require a result above 100% the next year.
Administration is proposing presenting *both* the current and historical ratio figures, excluding re-budgets, which would look like below graph, provided it doesn't create confusion.

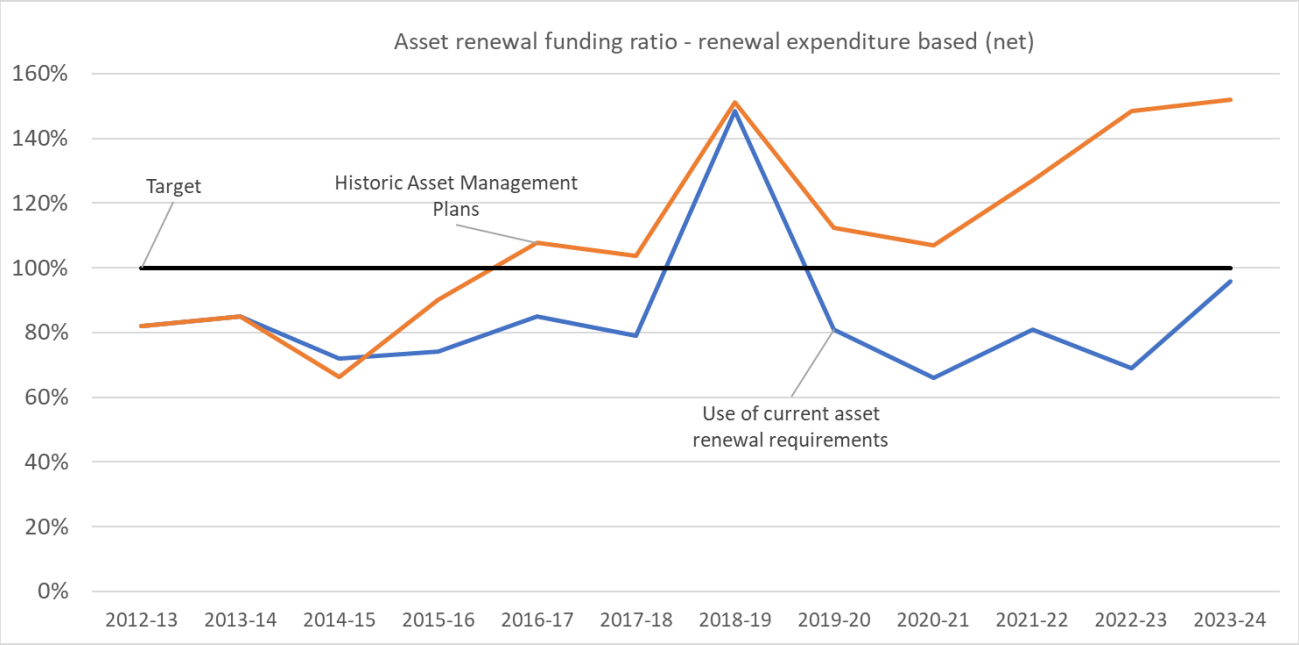


Figure 5: Current 2023/24 Adopted Long Term Financial Plan Projection – Asset Renewal Funding Ratio

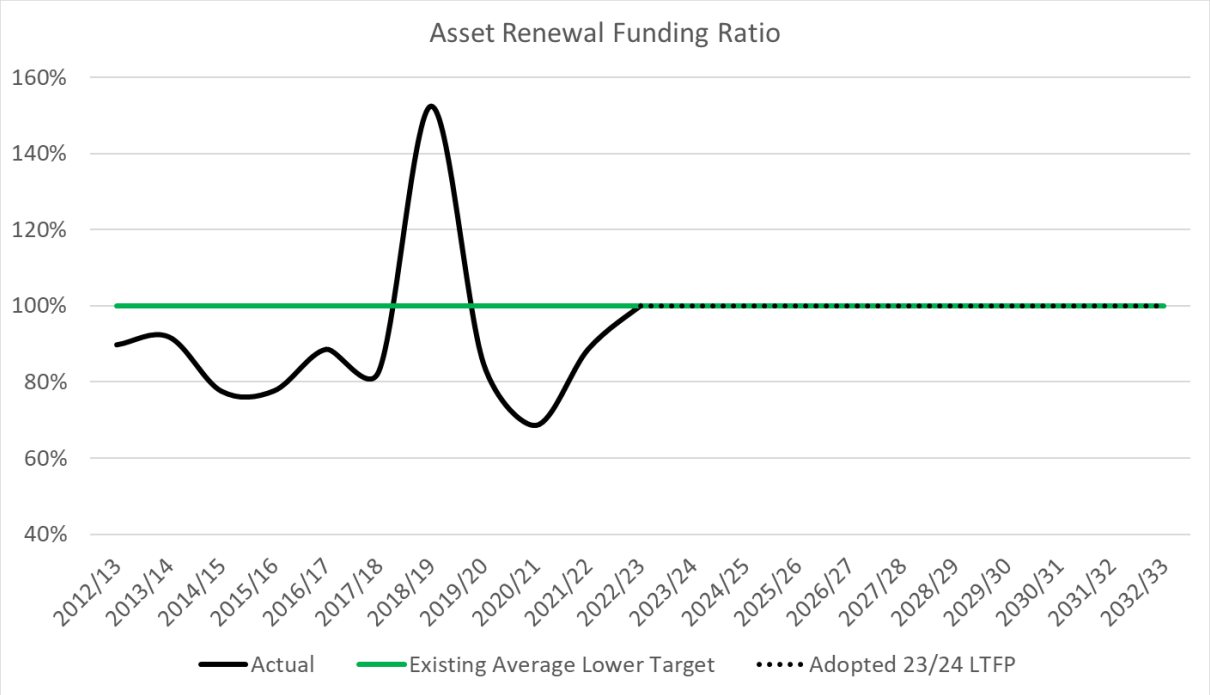


Figure 5 above indicates Council is, on average, replacing approximately 100% of its Assets as planned, albeit some individual year amounts are impacted by capital re-budgets. Council's projected future asset funding renewal ratio is set at 100% by funding all required capital renewals as per the adopted asset management plans.

Financial Indicator 4 – Asset Renewal Cashflow Ratio

Calculated as:

Cash flow from operations expressed as a percentage of the net expenditure on renewal/replacement of assets.

Purpose:

This indicator measures whether Council is generating enough cash from its operations to cover the replacement of assets over time. This ensures that Council is delivering intergenerational equity across the lifecycle of asset replacement.

If Council is not generating enough cash from operations to cover its asset renewal requirements (less than 100% on this ratio) then it is funding the replacement of assets from unsustainable sources of income, which will lead to an increasing level of borrowings over time, working against the principle of intergenerational equity.

Sustainability Target:

No less than 100% on average over the 10 year Long Term Financial Plan term

In general, Council should be generating enough cash from operations to cover the annual funding requirements for the replacement of assets over time (asset replacement annuity). This indicator (or an equivalent) is not included in those mandated as part of the model financial statements; however, Council believes it is an important indicator to ensure that Council is not only replacing assets at the rate needed (indicator 3), but that asset replacement is being funded from sustainable sources of income.

When Council has a program of reducing an infrastructure backlog, it is expected that asset renewals will be higher than cash flow from operations and thus the ratio will be less than 100%.

Figure 6: Current 2023/24 Adopted Long Term Financial Plan Projection – Asset Renewal Cashflow Ratio:

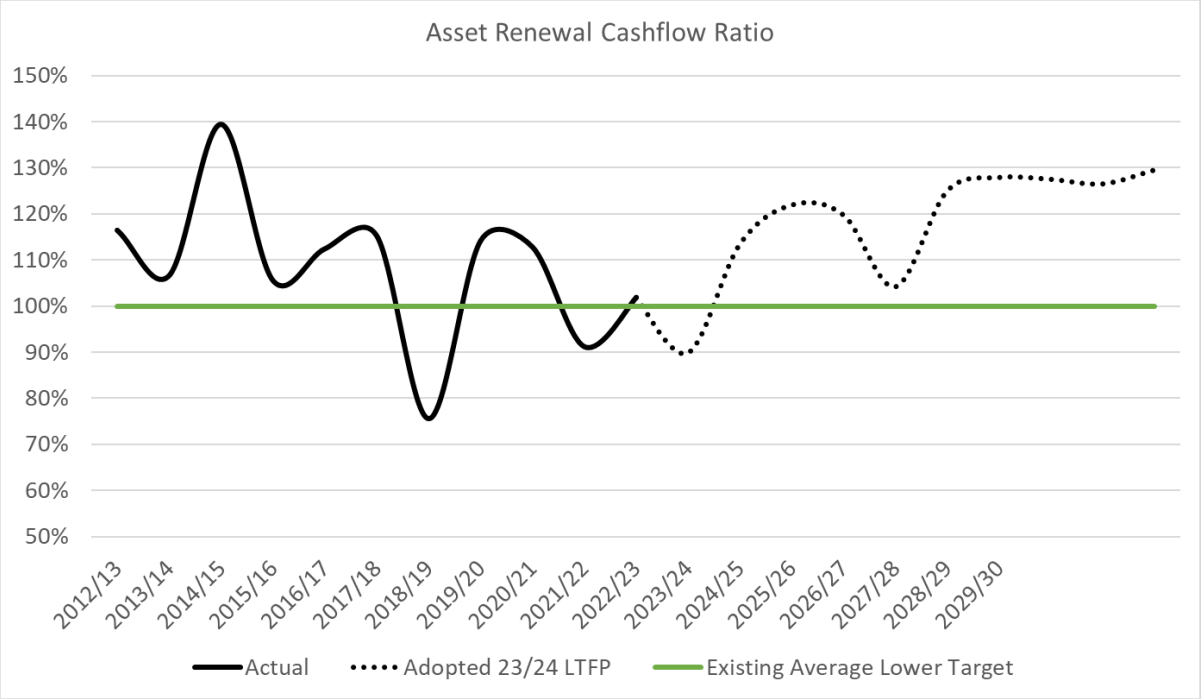


Figure 6 above shows the fluctuations that can occur due to Capital re-budgets and brought forward renewal to take advantage of grant funding. Notwithstanding these fluctuations, Council on average has been generating approximately 100% of cash from its operations to cover the replacement of assets. The average over the 10-year projections is 110%, above Council's existing lower policy target.

Financial Indicator 5 - Interest Coverage Ratio

Calculated as:
Net interest expense expressed as a percentage of Council rates income, less Landscape levy.
Purpose:
This indicator measures the affordability of Council's debt and articulates the portion of Council's rates income that is being used to pay interest. When considered in conjunction with Financial Indicator 2 (Net Financial Liabilities Ratio), this ratio forms part of a picture in terms of the level and affordability of Council's debt.
Sustainability Target:
No more than 6% over the 10-year Long Term Financial Plan term
Council considers that interest expense of greater than 6% of its rates income indicates a servicing cost of debt that is too high and working against the principle of intergenerational equity. To allow for variation it is considered that this target is most appropriately applied over a rolling three-year period.
Figure 7: Current 2023/24 Adopted Long Term Financial Plan Projection – Interest Coverage Ratio:

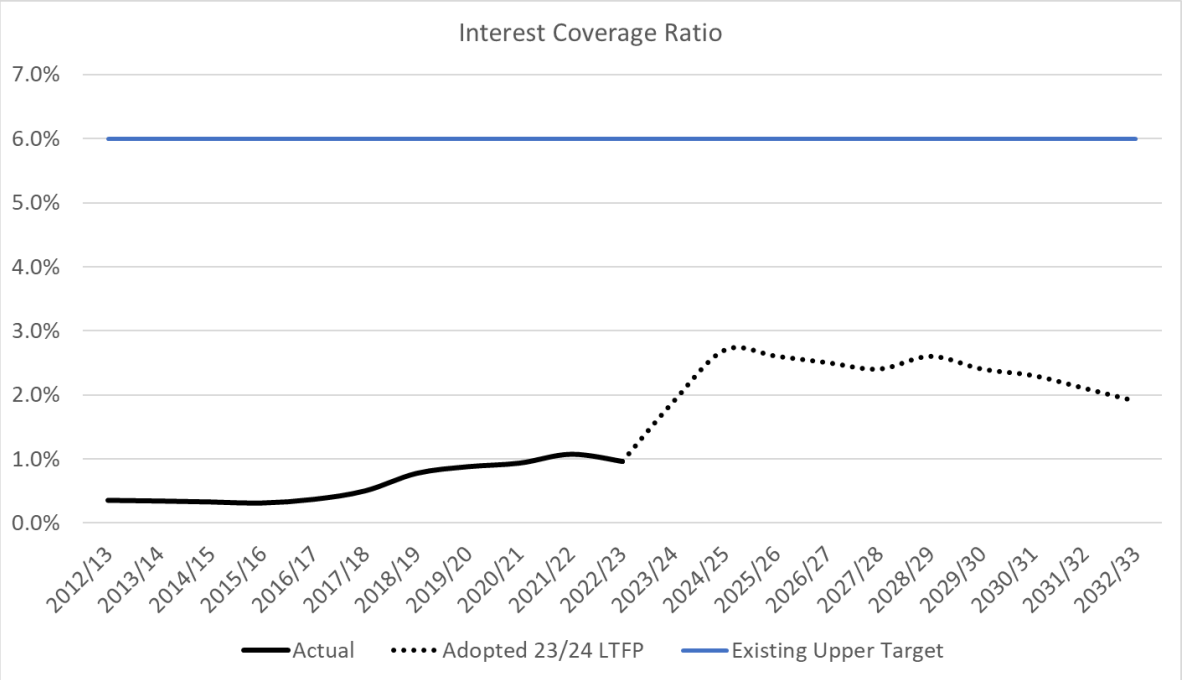


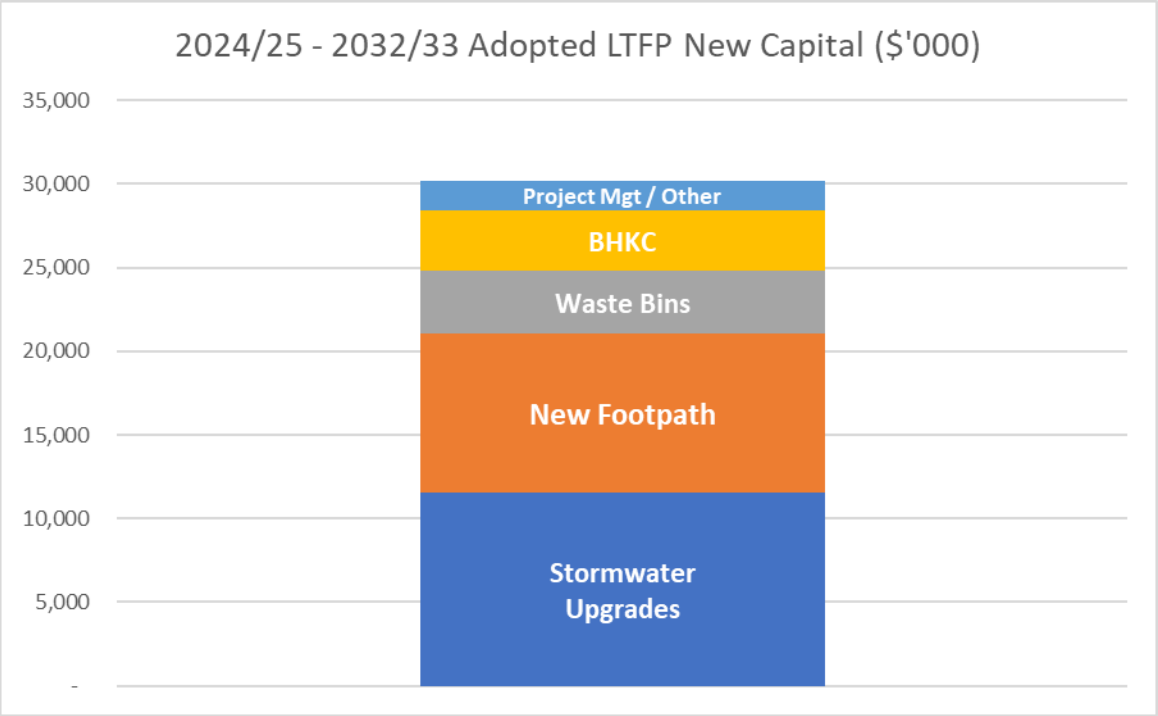
Figure 7 above is reflective of Council's historically low levels of debt and projected increase in borrowings to fund addressing the asset backlog and construction of new capital projects.

Topics for further discussion

Adjusting the existing Net Financial Liabilities ratio (debt) target

In the current 2023/24 adopted Long-Term Financial Plan, around $30m is allocated for new assets over the forward projections. The bulk of this allocation is designated for stormwater upgrades and the construction of new footpaths, as illustrated in Figure 8 below.

Figure 8: Current 2023/24 Adopted Long Term Financial Plan Projection - New Capital



Maintaining this new capital allocation in the plan would leave a remaining capacity of about $15 - $20 million for further new capital undertakings while adhering to the 80% existing target, assuming no changes in funding for asset management renewal and surplus projections. This equates to approximately $1.5 - $2m per year.

For perspective, Council has endorsed an average *net* new capital expenditure of roughly $4 million annually in the past five budgets, a figure that is about twice the average yearly capacity outlined in the current plan.

A crucial factor in deliberating on the debt levels from a financial stability standpoint is the affordability of the debt. At present, the projected interest coverage ratio (indicator 5 above) stands below 3%, a value that is just half of the council's sustainability target. To exceed this debt affordability target, council would need to increase the debt to roughly 130% of rates. It is worth noting that this is a conservative approximation since it is probable that council would raise additional rates to cover the ongoing costs, inclusive of interest, consequently reducing the ratio.

Should the council decide to increase the net financial liability sustainability target to say 100% of rates, (an increase of 20 percentage points) it would remain within the Local Government Association's recommended equivalent target of 120% of rates. At a level of 100% it would still provide an estimated financial buffer of approximately $13 million for unforeseen circumstances before council reached 120%. For context, within the council's risk management framework, the most severe risk level, termed 'Catastrophic,' corresponds to a financial fallout exceeding $2 million.

If Council did not wish to increase the debt target but continue to sustain the historical yearly net capital expenditure rate of $4 million annually it would need to increase the operating cash surplus.

Regardless, Administration recommends streamlining the ratio to a single, unambiguous target. At present, the ratio is defined as 'No more than 60% over the 10 year Long Term

Financial Plan term with ability to increase to 80% in relation to projects / investments that Council considers being of strategic significance.' The phrase 'projects of strategic significance' lacks clarity and could benefit from a more precise definition if Council chooses to keep two targets.

Increasing the Cash Surplus

To sustain the historical yearly expenditure rate of $4 million observed in the last five budgets, Council would need to increase rates incrementally by roughly 0.6% annually across the forward projections to remain within the prescribed limit. Alternatively, Council would need to reduce expenditures by around $390,000 annually, over and above any budgeted efficiency savings.

Industry Mandated vs Mitcham specific Measures

Council Utilises five key financial sustainability ratios, two of which— the Operating Result Ratio and the Net Financial Liability Ratio— deviate from their industry-mandated equivalent measure. Specifically, these two ratios are calculated using rate revenue, excluding the Landscape Levy, as opposed to total revenue. The Council opts for this more conservative measure because other forms of operating income are generally assigned for specific expenditures and are largely beyond the Council's control. Consequently, these income streams may not be reliably available for debt repayment.

However, the use of these unique metrics can create confusion among the community and make benchmarking with other councils problematic. If Council were to consider reverting to the industry-mandated measures a crucial consideration is the stability of the Council's rate revenue as a proportion of total revenue. This proportion is a critical factor in assessing whether the Council's two unique measures would distort the financial evaluations.

Historically, rate revenue has accounted for approximately 82% of total income, maintaining relative stability with a minor decline, mainly due to specific federal government grants. The current adopted plan projects this figure at about 85%. Naturally, this projection does not factor in potential one-off federal grants that have not yet been identified or planned. The proportion and the differing metrics are illustrated below:

Figure 9: Rates proportion to total revenue

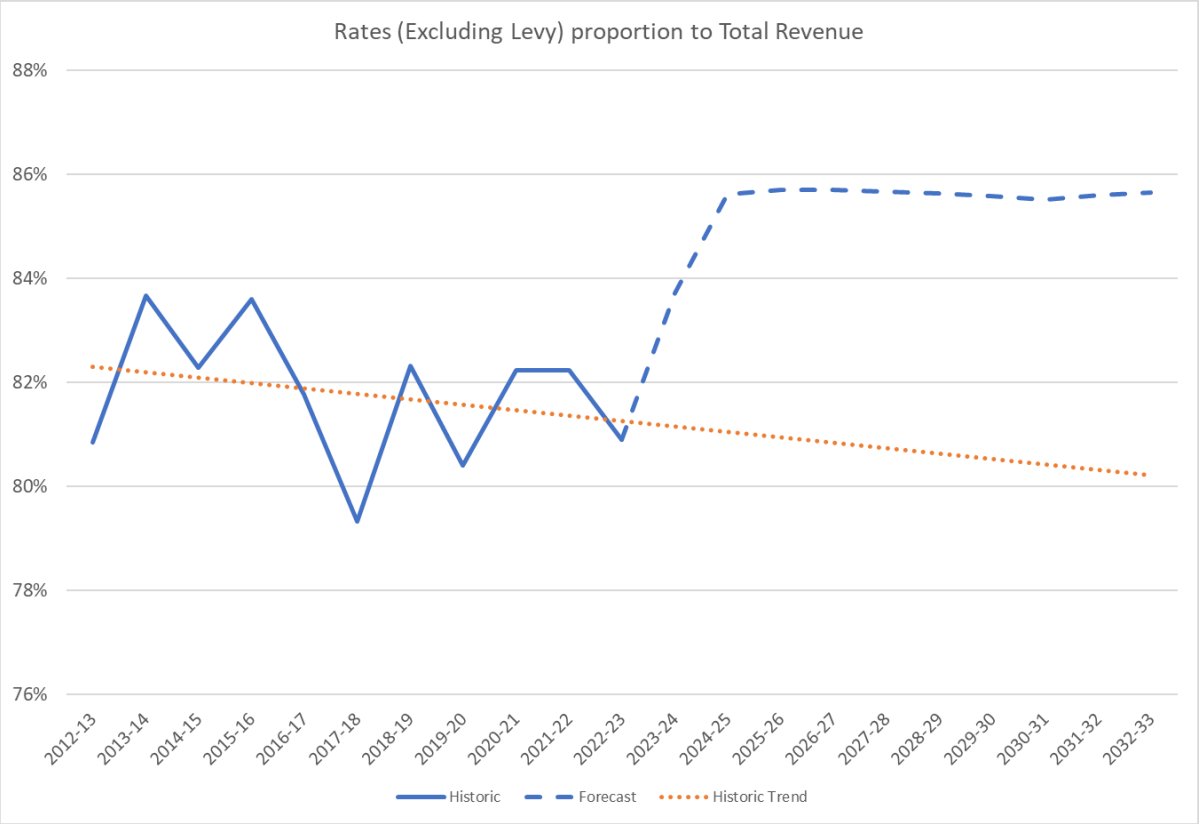
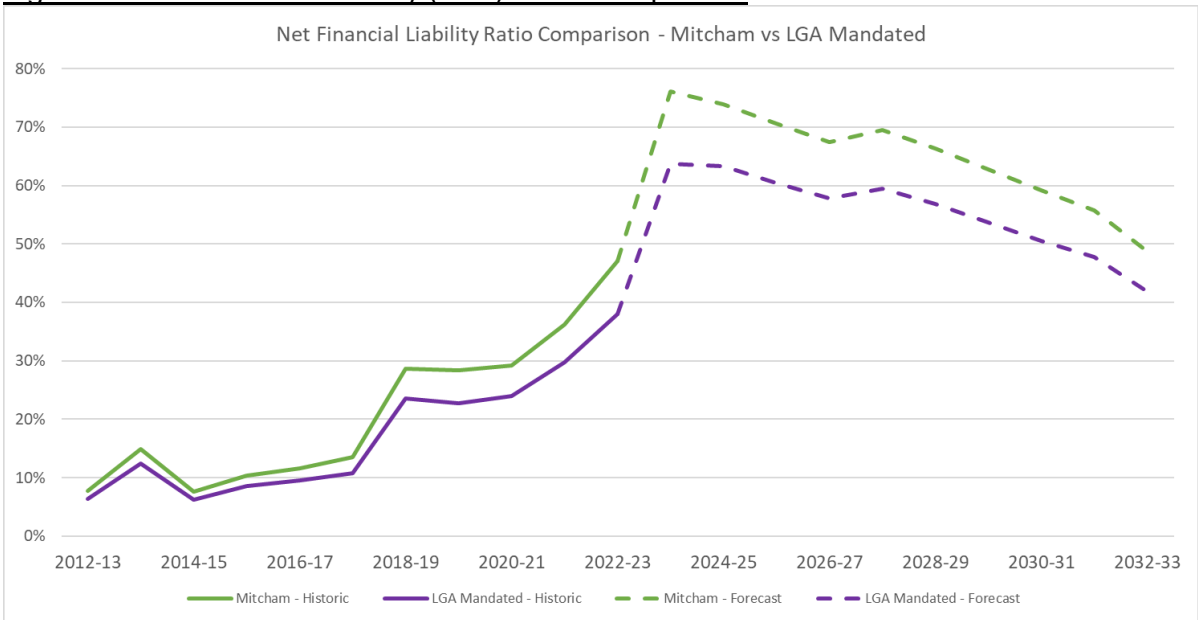


Figure 10: Net Financial Liability (NFL) Ratio Comparison



Historically, as Council's NFL rise, the disparity between the Council's specific NFL measure and the industry-mandated version expands. Notably, this discrepancy is minimal in the forecast. Should the Council opt to return to the industry-mandated measure, the distinct Council-specific metric could be integrated into visual representations. This inclusion would highlight any potential income variations that might skew the ratio.

Ability to depart from policy principles (one-off operating)

While the service funding principles articulated in the policy safeguard ratepayers to 'pay their fair share'—ensuring they neither subsidise nor are subsidised by fellow ratepayers across different periods, thereby preserving intergenerational equity—the policy emphasises these principles' application over a medium to long-term span (4-10 years).

This timeline permits deviations, specifically during unexpected economic jolts that necessitate short-term alterations to alleviate the rate burden on the community. A case in point is the response to the Covid-19 pandemic, during which budgeted rate relief was provisioned.
However, it's crucial to note that the second service funding principle specifies: " One-off or short-term operating projects (services) should only be funded with either:

- Recurrent operating income sources, moving on to deliver a different one-off or short-term operating service at the conclusion of the current one; or
- One-off operating income sources that match the timeframe of the one-off or short-term operating service."

Such a stance does not consider the financing of operating projects with evident long-term advantages or potential cost savings, which would typically justify the initial borrowing. A case in point is a technological enhancement investment leading to considerable long-term operational cost reduction. In the era preceding cloud software, such upgrades, being capital-intensive, would have been funded through borrowings in line with policy principles. Presently, with the shift to cloud software, these are deemed as operating expenditures.
Should the Council consider the possibility of financing operating projects via debt, an exceptional provision could be incorporated into the policy:
"In instances, where long-term benefits significantly outweigh associated risks and costs, borrowings may be considered for funding annual operating projects. Such projects should either present clear and quantifiable long-term advantages warranting the initial debt—like an energy-saving technology forecasted to cut down utility expenditures—or they should produce a revenue stream or cost-saving offsetting the debt within an acceptable period, such as a software enhancement that streamlines processes and thereby reduces labour expenses. In such cases, a cost-benefit analysis must be conducted and approved by Council before proceeding with the borrowing."

ESCOSA Local Government Advice Scheme

On 30 April 2022, amendments to the *Local Government Act 1999* came into operation. They introduced an advisory scheme that "aims to give ratepayers confidence that the rates they pay are set at the level necessary for their council to provide the services they value". The Essential Services Commission (Commission) is the advisory body. The State's 68 councils are subject to the scheme.
The scheme provides advice only, with decision making in the hands of the councils. This means that the Commission cannot require councils to follow the advice. However, the scheme requires both the Commission and councils to publish the advice and, if a council wishes to respond to the advice, that council must publish that response in its annual business plan. The advice to be provided under the scheme will provide independent and transparent information on matters which will be key to those discussions and decisions. The advice will also provide to ratepayers and other interested stakeholders an independent consideration of a council's plans.
Given that the policy focuses on financial sustainability, revenue considerations, and intergenerational equity, incorporating aspects of the ESCOSA advisory scheme could be of value. In the Principles Section a bullet point or sub-section about Transparency could be included, outlining how Council will consider and respond to ESCOSA's advice and publish this in its Annual Business Plan, which is provided every four years.
Given that the advice is required for publication in each subsequent draft and final Annual Business Plan, the Council could also commit to updating the status of any actions it plans to take in response to ESCOSA's recommendations within the Reporting and Review section of the policy.

New capital budget allocation in future years

As outlined above, in the 2023/24 Long-Term Financial Plan, approximately $30 million has been earmarked for the construction of new assets, primarily on stormwater

infrastructure and new footpath construction. Council may wish to consider, as part of its strategic management plan, additional allocations for emerging opportunities such as election-driven grants, as well as historical spending patterns in areas like sporting club upgrades and traffic improvements. These unspecified capital allocations could then be revisited during each strategic management plan review cycle.

It's essential to clarify that while these new capital allocations would be incorporated into the Long-Term Financial Plan, they will require formal adoption each year as part of the Annual Business Plan. This approach would allow Council to develop a more realistic and conservative debt profile, grounded in historical practices rather than solely relying on the minimum known capital programs.

The policy change could be included under the Risk Management section to guide the Council in considering future allocations based on both current and historical practices.

ESCOSA's Advisory Note

In making this decision it is important to take note of ESCOSA's February 2022 advice to a metropolitan council concerning projects that are not tied nor costed in the Long-Term Financial Plan, specifically The Commission noted that:

"*The additional capital expenditure factored into the forward projections is being funded in large part by additional rate contributions, but much of the allocations are general without specific projects yet defined. The Commission notes that the Council generally demonstrates good governance related to its capital enhancement projects and the regular consultation of its community on service priorities and funding requirements. However, an implication of the Council 'locking in' significant funding allocations in its 2022-23 LTFP for undefined future projects is that it must also plan for further rate increases above inflation to help fund them."…*

"The Commission notes that it is for the Council to determine the service level enhancements it wishes to provide to its community but, for the reasons identified above, it has also found that it would be appropriate to Focus on controlling cost growth in its budgeting, including by reviewing its projected capital expenditure allocations (in consultation with the community, as required) ***to remove those which are not yet tied to defined and costed projects****, and reduce the need for further rate increases.*

ESCOSA's advice stresses the importance of good governance in capital budgeting, community consultation, and justified rate increases. Council may wish to pay close attention to these recommendations and ensure that any future capital allocations are made in a financially sustainable manner and in meaningful consultation with the community.

Managing Costs and Savings Over a Rolling Four-Year Period

The responsibility for containing the cost increase of existing services at or below the CPI lies with Administration. This is achieved through an expenditure management, efficiency gains, and continuous improvement initiatives. To calculate the increase in costs for delivering existing services, the Council employs a range of indices, including CPI, Local Government Price Index (LGPI) "Recurrent," and LGPI "Capital." These indices are applied to corresponding expenditure categories such as employee costs, contractors, materials, and depreciation. Other contributing factors, like the incremental increases in the superannuation guarantee, are also accounted for in this calculation.

Given recent volatility in CPI, Council adopted a CEO Key Performance Indicator tied to a four-year rolling CPI. This approach offers a longer-term perspective that accommodates annual fluctuations while ensuring that, over an extended period, cost increases remain at or below CPI. Historically, Administration has consistently exceeded the savings required to meet this target, allowing Council to reduce the rate burden of introducing new services.

Figure 11 illustrates the differences in the Council's cost growth for existing services compared to CPI across the last three budgets. In the 21/22 and 22/23 financial years, Administration managed to keep existing service cost increases approximately 1.5% below CPI. However, the margin in 2023/24 was minimal. Under a scenario where costs rise significantly above the CPI, the rolling four-year average method would permit a temporary increase above CPI (illustratively, 1% higher in the below example), but still

maintain an average of around 0.5% below CPI over four years. This approach necessitates future 'catch up' efforts by Administration, especially as the advantageous years of 2021/22 and 2022/23 drop out of the rolling average, to continue striving for cost increases lower than the CPI.

Figure 11: Rolling four-year average – existing service cost comparison to CPI.

Administration's promise to deliver services at or below CPI - Rolling 4 year average					
(%)	2021/22	2022/23	2023/24	2024/25*	4yr Rolling average
CPI	1.2	4.7	7.9	4.5	4.6
Existing Services	-0.05	3.14	7.83	5.5	4.1
Difference	1.25	1.56	0.07	-1	0.5

**Note: The 2024/25 data is for illustrative purposes only.*

It's worth highlighting that the Long-Term Financial Plan currently projects future savings only at the level necessary to align with the forecasted CPI rate—approximately an ongoing annual savings requirement of $200,000. To ensure sound financial management, it's essential to avoid including unrealistic savings targets in future forecasts, as this could compromise the Council's long-term sustainability.

Therefore, the Council might consider specifying in the Risk Management section of its policy that it will ensure no unrealistic savings targets are included in the Long-Term Plan's forward projections. Additionally, it could be beneficial to manage both the cost of existing services and the savings target over a rolling four-year period, rather than on an annual basis, to account for economic volatility.

Possible policy included in Risk Management Section:

"Council commits to a realistic financial outlook by avoiding the inclusion of unrealistic savings targets in its Long-Term Plan's forward projections. The management of costs and savings targets will be viewed over a rolling four-year period to account for economic volatility."

Conclusion

This discussion paper promotes a common basic understanding of financial sustainability issues in a Local Government context. It is important to emphasise that Councils are making decisions as perpetual organisations for current and future generations.

The service funding principles and indicators discussed in this paper are reflected in the Sustainability Policy and are there to assist Council in making decisions in a financially sustainable manner.

Key questions for consideration in updating the current policy include:

1. What is a sustainable debt level, and should the Council adjust the existing Net Financial Liabilities ratio (debt) target given the limited capacity for further capital projects if adhering to the current 80% debt target?
2. Should the Council adopt a single debt target, or alternatively, clarify the ratio target for 'projects of strategic significance' to enhance the financial framework?
3. Should Council continue to use unique financial sustainability ratios in place of industry standards, considering this approach may cause confusion and make benchmarking difficult?
4. Does the current policy need an update to allow for the debt financing of one-off operating projects with long-term benefits, considering it currently does not account for this?
5. Should the policy be updated to incorporate response and reporting mechanisms for the ESCOSA Local Government Advice Scheme
6. Should Council adopt a more flexible approach to new capital budget provision allocations, considering incorporating them into annual plans and reflecting on historical practices?
7. Should Council strive to manage costs and savings over a rolling four-year period, with an aim to keep the cost increase of existing services at or below CPI, and should it consider the implications of setting unrealistic savings targets in future financial plans?

Version History

VERSION	AUTHOR(S) POSITION	CHANGES	DATE
1	Manager Finance & Procurement	Draft Discussion Paper for Audit Committee Presentation	February 2020
1.1	Manager Finance & Procurement	Changes following discussion with Audit Committee	March 2020
1.2	Manager Finance & Procurement	Changes following further discussion with Audit Committee (14th May)	May 2020
1.3	Manager Finance & Procurement	Changes following Council adoption of 2020/2021 Long Term Financial Plan	August 2020
1.4	Manager Finance & Procurement	Appendix added following discussion with Council on 25 August 2020	August 2020
2.0	Manager Finance & Rates	Update 3 years' worth of data, removed discussion items no longer reflected in endorsed policy (debt term, affordability, recommendations) and added new discussion topics in consultation with Council 24 October 2023 for Audit & Risk Committee consideration.	October 2023
2.1	Manager Finance & Rates	Renamed discussion paper for Policy Adoption by Council	January 2024
3	Manager Finance & Rates	Changes as adopted by Council at the meeting of 13 February 2024	13 February 2024