

| Council Policy | | | |
|---|----------------------------|--|-----------------------------|
| CP014 | | | |
| Financial Sustainability | | | |
| Officer | Manager Financial Services | Owner | Director Treasury & Finance |
| Review Frequency | Annually | Next Review | 2014 |
| Council Resolution number and date | | Original: CS001 1 July 2011 2012 review: TF0010 9 July 2012 | |
| Mayor | | Chief Executive Officer | |

OBJECTIVE

The purpose of this policy is to set guiding principles and actions to achieve financial sustainability in the City of Greater Geraldton.

SCOPE

This policy applies to all of the City's operations.

DEFINITIONS

Not applicable

POLICY PRINCIPLES

1. Long term financial sustainability is important for the City of Greater Geraldton to deliver and maintain the infrastructure, facilities, amenities, services and programmes needed by the community.
2. Responsible long term financial management will:
 - a. Ensure that the City remains in a viable financial position;
 - b. Give stability and certainty to financial outcomes;
 - c. Ensure that public resources are distributed equitably between current and future ratepayers and residents;
 - d. Provide the opportunity to cater for a growing community;
 - e. Allow the City to take full advantage of funding opportunities; and
 - f. Ensure consistent delivery of essential community services and the efficient development and maintenance of infrastructure.

3. Measurement of Financial Sustainability

The City uses six (6) financial indicators as its measure of long term financial sustainability.

These indicators are:

- a. Current Ratio;
- b. Underlying Result Ratio;
- c. Self-Financing Ratio;
- d. Cash Reserves Ratio;
- e. Renewal Investment Ratio; and
- f. Indebtedness Ratio.

For each indicator, the City has determined an acceptable target which it needs to achieve in order to be financially sustainable.

i. Current Ratio

This ratio measures the relationship between the current assets and the current liabilities. If the City has a ratio greater than 1.00 (or 100%) then its level of current assets exceeds its current liabilities and is financially secure in the short term. If the ratio is less than 1.00 then it has a short term funding issue.

Target = 1.50 or 150%

Target results for each year:

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------|---------|---------|---------|---------|
| 0.80 | 1.00 | 1.30 | 1.40 | 1.50 |

ii. Underlying Result Ratio

This ratio measures the degree the city is generating *revenue*, after depreciation, to apply to future asset renewal. A ratio above zero indicates that the City is generating an underlying surplus (after adjustments for items such as capital revenue and revaluations) which means that positive revenue is being generated to provide for operating expenses including the depreciation of past assets.

Target = 0.25

Target results for each year:

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------|---------|---------|---------|---------|
| 0.15 | 0.20 | 0.22 | 0.24 | 0.25 |

iii. Self Financing Ratio

This ratio measures the city's ability to generate *cash* after operations to fund the replacement of assets. The higher the percentage the more able or self-reliant the local government is to fund its capital program without reliance on external contributions.

Target = 0.25

Target results for each year:

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------|---------|---------|---------|---------|
| 0.13 | 0.15 | 0.17 | 0.22 | 0.25 |

iv. Cash Reserves Ratio

This ratio measure the extent the City is maintaining cash reserves available for use to fund asset renewal and new services. A ratio greater than zero indicates the more cash reserves the City has at its disposal while a ratio below zero shows that there are no reserves available to fund urgent asset renewal expenditure.

Target = 0.15

Target results for each year:

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------|---------|---------|---------|---------|
| 0.11 | 0.12 | 0.13 | 0.14 | 0.15 |

v. Renewal Investment

This ratio measures the extent to which assets are being renewed compared to the amount of consumption (depreciation). A ratio of greater than 1.00 (or 100%) means that the City is investing in renewal of its assets to a degree that offsets the current consumption of its assets and provides for the effect of inflation.

Target = 100%

Target results for each year:

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---------|---------|---------|---------|---------|---------|
| 30% | 35% | 40% | 45% | 50% | 55% |

| 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---------|---------|---------|---------|---------|---------|---------|
| 60% | 65% | 70% | 75% | 80% | 90% | 100% |

vi. Indebtedness Ratio

This ratio measures the extent to which past borrowings (principal outstanding) relate to the City's discretionary general revenue. A low ratio provides the City with the ability to use borrowings in the future to counter any unforeseen expenditure shocks in asset renewal.

Target = < 0.4

Target results for each year:

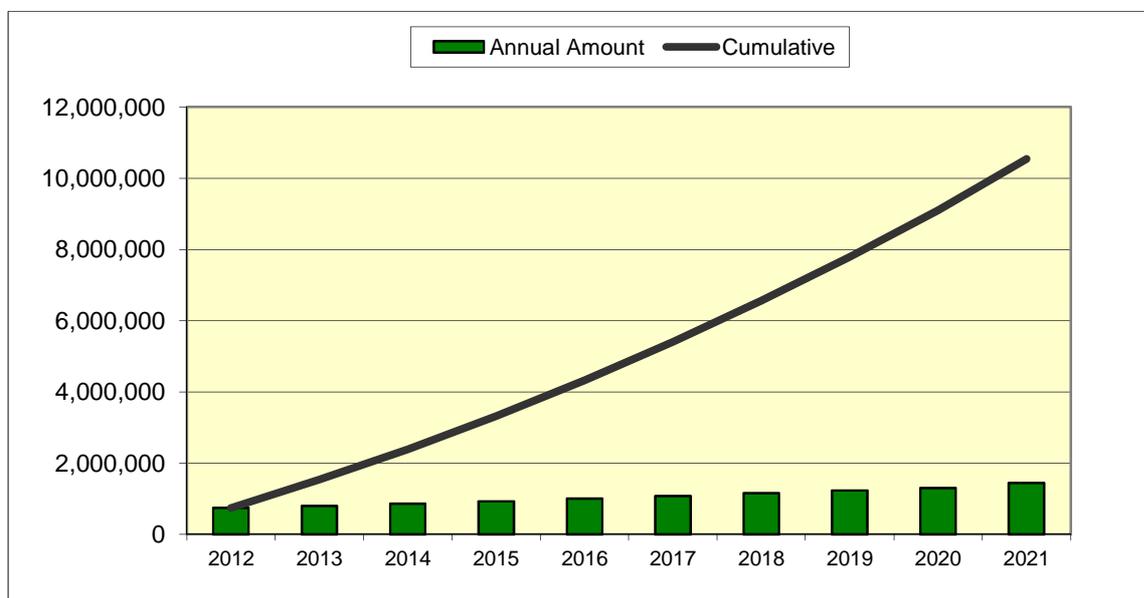
| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---------|---------|---------|---------|---------|
| 0.32 | 0.45 | 0.4 | 0.4 | 0.4 |

4. Measures Used to Achieve Financial Sustainability

4.1. Cash resources

- In order to be financially sustainable, the City will ensure that its cash resources are kept at an acceptable level. This level needs to be sufficient to sustain the cost of services to the community while at the same time provide for liabilities which will occur in future years. E.g. employees leave entitlements and asset renewal costs. To achieve this, the City will aim to generate a *minimum unrestricted surplus each year of 1.5% of operating revenue after the transfer to funds to reserves required by legislation or to protect surplus funds created by the City's business units.*

The following chart shows the impact of this over the next 10 years.



4.2. Collections

The level of debt collection undertaken by the City is important to ensure that the services provided are fully paid for in the long term. The City appreciates that the changing financial environment impacts on all residents and businesses and assists customers in meeting their obligations by offering payment options. However, in order to its maintain its ability to continue to provide services to the whole community, the City will actively pursue those debtors who ignore requests for payment. To this end, the City will aim to achieve an annual collection rate of 97%.

4.3. Payments

The City will take advantage of favourable terms of payment in order to maximise its investment capacity. The City will pay all accounts within 30 days of receipt of invoice however it does recognise that small businesses may require quicker payment of invoices and these will be processed within 14 days of receipt.

4.4. Stock Levels

The City will actively ensure that its stock levels are maintained to a level which aligns with “just in time” principles. This means that minimum levels of stock will be kept and that the majority of purchases will be made as required taking into account lead times and availability. Stock levels will be assessed in February of each year and any obsolete stock will be sold in accordance with the Local Government Act.

4.5. Reserves

Reserves are part of the City's overall equity position. Reserves are funds which have been set aside for specific projects to be done in future years. Reserves can be categorised as discretionary or non-discretionary. Non-discretionary reserves are those which the City is required to have by legislation.

Discretionary reserves are those which the Council resolves to establish for nominated projects or purposes.

It is important that once the purpose for a reserve has been completed the reserve is closed and that reserves do not continue to be funded when no longer required. The retention of obsolete reserves restricts cash that could be used for funding other initiatives and impacts on cash ratios.

In order to ensure efficient reserve management, the City will:

- a. only establish reserves for the following purposes:
 - i. funding future projects
 - ii. setting aside funds specifically rated for a purpose
 - iii. business unit surpluses to be applied for the purposes of such business units
 - iv. statutory requirements
- b. maintain a maximum of twenty reserve accounts at any one time
- c. not establish reserves for operating purposes
- d. review the level and funding of reserves on an annual basis through the budget process
- e. not transfer discretionary funds to reserves unless it has reached the targeted 1.5% of operating revenue surplus as in section 4.1.
- f. restrict the transfer of funds to reserves until after the annual financial statements have been completed unless required by legislation or to protect surplus funds created by the City's business units
- g. fixed reserves be established for the following:
 - i. Employee leave entitlements (statutory)
 - ii. Asset renewal (rate category)
 - iii. Asset development (rate category)
 - iv. Airport (business unit)
 - v. Meru Waste Disposal Site (business unit)
 - vi. Meru Waste Rehabilitation (business unit)
 - vii. Family Day Care (business unit)
 - viii. Parking Land (rate category)
 - ix. Plant Replacement
 - x. Strategic Initiatives
 - xi. Risk Management
 - xii. Meat Inspection (statutory)
 - xiii. Unexpended Capital Works and Restricted Grant Reserve

5. Loan Funding

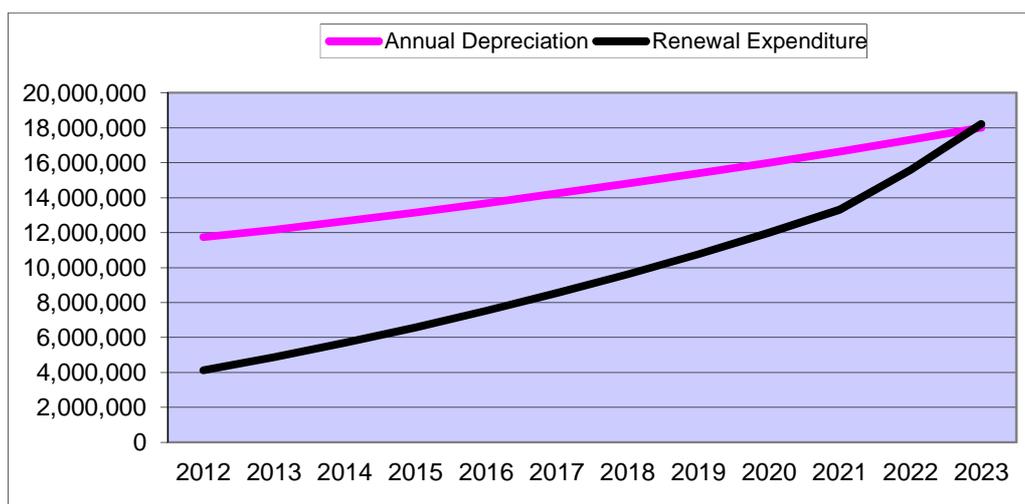
Council will utilise loan funds to undertake its capital works program only when the asset is of a long term nature. Loan funds will not be used for short term assets except when the project is related to land development where it is expected that a return on investment will be generated within 5 years and the loan can be extinguished. Loan funds will never be utilized for operating expenses.

Other than in exceptional circumstances, the City will limit its use of loan funds such that, in any year, the costs of servicing interest and principal repayments for loans (excluding loans for land development and sale projects, or for revenue generating assets of self-sustaining business units) will not exceed ten percent (10%) of operating revenues from rates, fees and charges.

6. Renewal Gap

The term Renewal Gap recognises the difference between the rate at which an asset is consumed or deteriorates (depreciates), and the cost required to renew or preserve the asset. If sufficient funds are not allocated for the preservation (or renewal) of assets then the condition of those assets will diminish and the value of Council's investment in those assets will also diminish. The consequences are loss of functionality, productivity, usability and safety, ultimately leading to risk exposures, reduced quality of life and amenity for the community, and loss of property value. It is therefore important for the City to fund the renewal of assets in order to maintain its investment in those assets. This is achieved by funding the depreciation expense on an annual basis and applying these funds to the renewal cost.

The chart below shows how the City aims to achieve full funding of depreciation over the next 10 years. The City estimates that, in the absence of other discretionary and recurring revenue increases from sources other than rates, this program will require own-source revenue increases equivalent to increases in rates-in-the-dollar averaging 2.5% per year, increasing from 2011-12 rates levels, dedicated exclusively to this purpose, every year until 2022/23.



NOTE: Once these targets have been reached the level of funding achieved cannot be reduced. By 2030, at current rates of City growth, assets renewal expenditure in the region of \$20 million per year will be required.

7. Planning & Budgeting for Financial Sustainability

Long term financial plans and annual budgets for the City will be framed to:

- Balance over time the proportional allocation of resources to economic, social, cultural and environmental programs to meet statutory obligations and meet the needs and aspirations of the Community;
- Maintain levels of operational services needed by the community in terms of nature, access, scope, frequency and quality;
- Maintain the operational functionality, serviceability and safety of existing infrastructure, facility, public amenity and other built assets through appropriate preventative and corrective maintenance programs;
- Maintain levels of plant and equipment necessary to enable and support the delivery of services and facilities needed by the community;
- Recover past deficits or losses brought forward;
- Provide funds to service interest costs and repayment of principal for loans;
- Provide funds to renew/replace existing assets that have reached the end of serviceable working life;
- Provide own-source capital funds towards construction of new infrastructure, facility and public amenity assets determined by the Council as capital works required to meet the needs of City economic development, population growth and environmental sustainability;
- Provide untied funds to enable the City to access Federal or State capital grant programs requiring equal or partial matching funds;
- Create and maintain a working capital untied cash capacity equivalent to no less than 5% and no more than 10% of annual rates revenue, to enable the City to respond to any unscheduled/urgent asset renewal/replacement demands, respond to natural disasters or emergencies, or respond to unanticipated opportunities for projects demonstrably in the strategic interests of the community.

To achieve these goals, annual budgets will be framed to:

- Maintain levels of services, by budgeting to cover forecast inflation of consumer, labour and construction costs, increases in costs of insurances, escalation of existing or introduction of new Federal or State taxes, fees or charges on the City, and escalation of essential utility costs including electricity, gas and water.
- Bridge the asset renewal gap by 2023, requiring own-source revenue collection increases from or equivalent to at least a 2.5% increase in rate-in-the-dollar per year, every year until 2022/23.
- Bridge the working capital gap inherited from past Council mergers, requiring own-source revenue collection increases from or equivalent to at least a 1.5% increase in rate-in-the-dollar per year, every year until 2015/16.
- Limit new capital projects in any year to within the capital funding prudently available to Council from planned combination of own-source funds, committed grants, and use of loans available within the loan-servicing limits enunciated in this policy.

WORKPLACE INFORMATION

Local Government Act 1995
Australian Accounting Standards

ROLES AND RESPONSIBILITIES

The Director of Treasury & Finance is responsible for implementing this policy.