CIRCULAR HEAD COUNCIL

EQUITY • CONNECTION • EXCELLENCE

FINANCIAL MANAGEMENT STRATEGY

A sustainable, transparent and responsible approach to managing Council's financial future.



SUSTAINABLE FINANCES

Supporting long-term financial resilience and prudent resource management.

RESPONSIBLE DECISION-MAKING

Guiding transparent, evidence-based and accountable financial choices.

LONG-TERM PLANNING

Aligning budgets, assets and investment priorities with Council's future needs.

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PURPOSE

This strategy will detail the actions and strategies the Circular Head Council has set in order to achieve its financial targets.

POLICY STATEMENT

That the Circular Head Council as a Local Government entity is committed to a sustainable future as a single entity, through responsible financial management.

RATIONALE/BACKGROUND

Responsible financial management is embraced by Council and promoted throughout this document. It is demonstrated that Council accepts that the basic responsibilities of financial management include the ability to plan, acquire, control and utilise funds in ways that maximise the efficiency of the Council's operations, and the returns provided to ratepayers in the delivery of services.

In any financial management strategy there is a certain amount of risk due to future funding uncertainty. Council has endeavoured to allow for some flexibility during the preparation of this Strategy to accommodate financial risks, including the effects of inflation, interest rates, taxation changes etc. As a working document of Council this Strategy will be constantly monitored and reviewed when the need arises.

EXECUTIVE SUMMARY

This Strategy will embrace not only obtaining funds by the imposition of rates, fees and charges, contributions and grants, but will determine a basis for the use of these funds in a wise manner which will objectively provide for the needs of the Council and its community.

Cash flow is an important aspect of the Council's financial management. It is imperative that cash is managed in such a way that it is readily available and capable of being used to the best advantage of the Council**.**

The major purpose of this strategy is to set the following strategies to ensure transparent and appropriate financial management:

- Operating revenues of the Council in a particular year should be equal to or greater than its operating expenses including an appropriate amount for depreciation, calculated by reference to a particular class of asset. This aim will preserve Council's asset base and contribute significantly to its sustainable viability.
- Council has determined that funds will not be borrowed to complete any recurrent work currently in place, or any future recurrent expenditure on core activities.
- Council will commit to retaining a minimum cash balance equivalent to the preceding years general rate revenue in order to ensure financial viability (as the future renewals

expenditure in the Strategic Asset Management Plan is not mature enough to determine required cash reserves for the next 20-30 years).
- To have a long term funding plan for renewal of Council assets to cater for the desired levels of service to Council's stakeholders.
- Financial ratio targets in relation to balanced budget, liquidity and sustainability targets are outlined in section 10.

CHALLENGES

Over the next 5-20 years, Circular Head Council will face many challenges that will require strong financial leadership and creative solutions to meet its aspirations. The key challenges faced over this period include:

- Addressing council's medium to long term deficits in funding the delivery our services.
- Delivering organisational change to improve efficiency of service delivery in a financially sustainable manner.
- Meeting expectations from all stakeholders including community, service users and government by ensuring standards across key services keep pace with demand and in balance with the capacity to fund these operations.
- Recruitment, retention and housing of appropriately trained staff.
- Continuing to maintain service levels and achieve desired outcomes amidst shortages of resources and contractors.

EFFICIENCY – VALUE FOR MONEY

Council will maintain an ongoing review of its services that seeks to better define service requirements, refine delivery methods and balance service aims against affordability for both the Council and our stakeholders.

It is intended that all services be reviewed on a cyclical basis over a period of time.
Council will strive to deliver efficiencies through improved strategic partnering and collaboration with other authorities and agencies.

FUNDING OF INFRASTRUCTURE

The key objective of Council's Strategic Asset Management Plan is to preserve Councils existing assets at desired condition levels. If funding is not sufficiently allocated to asset renewal then Council's investment in those assets will reduce along with the capacity to deliver services to the community.

The Council has adopted its Asset Management Policy. The policy is supported by an Asset Management Strategy, which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives. Asset Management

Plans are subsequent components where long term plans (ten years and beyond) outline service and funding levels for each asset category.

OUTCOMES

- To have a long term funding plan for renewal of Council assets to cater for the desired levels of service to Council's stakeholders.
- Council's assets will be fit for purpose to provide the desired level of service to the community on a life cycle cost basis.
- Whole of life funding available for the development and maintenance of facilities and infrastructure consistent with responsible asset management to cover life cycle costing.
- Identifying new funding sources for new and upgraded infrastructure on a life cycle cost basis.
- To accommodate the organisations cash flow needs to enable it to carry out asset maintenance activities and renewal and replacement of assets, as set out in the asset management plans – providing the asset management plans are based on financially sustainable service levels.

STRATEGIES

- Continue to improve the rate base and review the need to renew assets.
- Continue to improve asset management practices with a high priority to have adequate asset assessments (condition and fit for purpose assessments) to enable reasonable long term capital renewal forecasts which can be directly linked to long term financial planning annual budgets and service level reviews
- Council, having established its critical renewal investment levels, continues to regularly update Asset Management Plans for all classes of council assets incorporating service level assessments.
- Council, as part of the review of its Asset Management Plans, determines how service levels will be reached including a combination of improved revenue raising, review of existing service levels, asset disposal and composition of the asset portfolio.
- Council allocates sufficient funds to the renewal of existing assets and plans the funds required for constructing new assets.
- Council regularly updates the 10 Year Asset Renewal Program to ensure that council adequately maintains its existing asset base.

LOAN BORROWINGS

Council has determined that funds will not be borrowed to complete capital or recurrent work currently in place, or any future recurrent expenditure. However, an allowance will be made to borrow funds for new capital works when it can be demonstrated that the maximum repayment time does not exceed the useful life of the project or asset.

Council is to ensure that all future loan borrowings are made, taking into account the ability of the Council to service its debts.

Should Council incur substantial cost in the case of emergency infrastructure replacement which has been unforeseeable (i.e. disaster) borrowings may be necessary.

Reduction of overall loan debt is a priority, with new borrowings only being considered when it can be demonstrated that the project to be undertaken will result in a Working Capital Ratio above 100%.

All works that cannot demonstrate that the debt will be paid from surplus funds (including savings on repayments as loans are retired) may be funded at the discretion of Council by loans identified for community improvements. The ability of the Council to reduce significantly its loan debt without dramatically affecting its service provision to the community is limited.

With the population relatively static in Circular Head it is appropriate that a "No New Debt" policy be implemented (excepting where it can be demonstrated that a loan will be self-supporting or is approved for specific community improvements) which will have the effect of a levelling out of costs at the current level, and, as loans are retired the equivalent of the repayments can then be utilised to fund capital work programs.

CASH AND INVESTMENT OF SURPLUS FUNDS

Cash levels are to be maintained in accordance with Section 9 Financial Sustainability.

Council will commit to retaining a cash balance equivalent to the preceding years general rate revenue in order to ensure financial viability.

Surplus funds including the abovementioned can be invested in accordance with Council's investment policy.

INVESTMENT STRATEGY

The Council will invest funds to maximise return on investments, whilst maintaining an acceptable level of risk, in accordance with the Council's adopted Investment Policy.

REVENUE

Council receives revenue from many different sources. The two main sources are rates and financial assistance grants. The amount of financial assistance grants Council receives is unable to be influenced, therefore is not included in this document. Council seeks to raise enough revenue each financial year to prepare a balanced budget in terms of a cash position.

- General rates – the basis for rating that Council uses in the calculation of rates is the AAV (or AAAV Adjusted Assessed Annual Value) method. The Council has a rates and charges policy which outlines Council's rating strategy. Council applies the principles of taxation; namely capacity to pay, benefit and simplicity to implement. Those with a

higher capacity to pay tax should pay more than those with a lesser capacity to pay. Council balances this with the benefit principle as some groups benefit more from specific rates and charges, such as garbage, which are rated for as a separate charge.

- Covers the fortnightly collection of urban recycling – full cost recovery
- Urban bin collection rate – full cost recovery
- Rural bin collection rate – full cost recovery
- White Hills Transfer Station – full cost recovery, including allowances for renewal of assets and future rehabilitation
- Stormwater services – full cost recovery
- Fees and charges (Cemeteries, pool, animal control, planning, building, food registrations, engineering fees, administration fees) – increase by a minimum of CPI All Ords (Hobart December Qtr) each financial year if service review has not been completed.
- TasWater dividend (not guaranteed each year)

FINANCIAL SUSTAINABILITY

A 10 year financial plan has been prepared to demonstrate the financial sustainability of the Circular Head Council in ensuing years.

The existence of an operating surplus will assist Council in funding the creation and life cycle costs of new capital investments that have not otherwise been provided for in depreciation attributed. It will also be used as a risk management tool. An investment in the order of a year's general rate revenue will enable Council to continue to supply basic services in times of a major disaster or significant economic downturns within the community.

It is vital that the long-term financial model be updated regularly in conjunction with reviews of the Strategic Asset Management Plan, Strategic Plan and other associated plans, and also through feedback from Councillors, staff, the community and other stakeholders.

The Annual Plan will identify the major projects and tasks for the year ahead. These figures link directly to the cost model. They will also link to individual staff member's performance indicators for the year. This will ensure accountability and staff involvement in the achievement of projects as well as the ongoing planning process. They will be an integral part of the performance review process completed by the employee and supervisor.

Council will maintain community wealth to endure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation.

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost of the service it consumes). Council will invest sustainably in community assets to maintain (and potentially enhance) service levels.

FINANCIAL TARGETS

Objectives	Target
Positive net result on the Comprehensive Income Statement including depreciation, but excluding capital grant income and recognition of assets	Positive Underlying surplus ratio
Debt servicing and redemption costs within the financial capacity of Council	Self-financing Ratio greater than 20%
Avoid deficit budgets where the liquidity ratios fall below target	Indebtedness Ratio less than 40%

Objectives	Target
Council has sufficient cash to meet its debts as and when they fall due	Working Capital Ratio greater than 120%
Trust Funds and Statutory Reserves are fully cash-backed at 30 June every year	Positive net financial liabilities ratio

Objectives	Target
To ensure that Council's physical assets are maintained to standards that provide functionality and serviceability	Asset sustainability ratio greater than 100%
To ensure the value of projected capital renewal funding is being reflected in both the financial plan and asset management plans	Asset renewal funding ratio greater 90 - 100%
To demonstrate that Council has the financial capacity to replace, renew, decommission or realise assets as and when needed	Asset consumption ratio 40-80%