COUNCIL POLICY – Financial Sustainability Policy	
Reference Number	750838
Responsible Business Unit	Finance
Responsible Officer	General Manager Corporate Services
Legislation	Local Government Act 1999
Relevant Delegations	Chief Executive Officer
Related Policies Management GuidelinesFrameworks	Good Public Administration Framework Risk Management Framework Long Term Financial Plan Budget Reporting and Amendment Policy Procurement and Financial Delegations Policy Rating Policy Fees and Charges Policy
Link to Strategic Plan	Objective 5.2 – SustainableObjective 5.4 – Transparent
Council resolution	13 September 2021
Date Adopted	148.1
Review Date	July 2024
Previous Revisions	Item 141.3 – 13 August 2018 Item 137.1 – 14 August 2017 Item 138.1 – 11 July 2016 Item 220.1 – 14 September 2015 Item 272.4 – 5 November 2012

POLICY STATEMENT

The purpose of this policy is to establish the strategic financial sustainability principles for the RuralCity of Murray Bridge when developing the Annual Business Plan incorporating the Annual Budget, the Long Term Financial Plan, and making critical financial decisions.

OBJECTIVES

Financial sustainability is achieved when service and infrastructure levels and standards are delivered according to a long-term plan without the need to significantly increase rates or significantly reduce services.

Long term financial sustainability is important if Council is to deliver the services and programs expected by the community. It is also important that community assets are maintained so that a liability does not build up and become a burden for future ratepayers.

Responsible long-term financial sustainability ensures:

- Public resources are distributed fairly between current and future ratepayers, and this will be achieved by maintaining a balanced budget or operating surplus
- Funding is made available for the maintenance, replacement and upgrade of assets to meet community expectations
- Council is in a healthy financial position

- Financial outcomes are given greater stability and certainty
- Consistent delivery of essential community services and the efficient development of infrastructure
- Current and future Council rates are given a fair degree of stability and predictability.

SCOPE

This policy applies to the Rural City of Murray Bridge and those involved in the strategic direction ofthe Council.

PRINCIPLES

In order to achieve financial sustainability, Council needs to ensure the following plans are fullydeveloped, aligned and reviewed regularly:

- Community Plan
- Strategic Plan
- Asset Management Plan
- Development Plan
- Long Term Financial Plan

These plans form the foundation for the **Long Term Financial Plan** which cannot be developed inisolation of the community and organisational goals, objectives and strategies.

On an annual basis, Council will adopt the following financial sustainability principles to beincluded in the Annual Business Plan and Budget:

- Balanced Budget
- Funded Asset and Service Provision Costs
- Review of Assets
- Debt Limitations
- Council Rate Increases

IMPLEMENTATION

Within each of the financial sustainability principles, Council must identify targets with the aim of ensuring strategic financial sustainability and long term viability for Council and the community of the Rural City of Murray Bridge. A key measure of financial sustainability is the Operating Surplus Ratio.

Council must adopt a balanced budget. Council's policy is to budget for an underlying operating surplus in each year.

This percentage is calculated as:

$$\frac{\text{Underlying Operating Surplus (Deficit) x 100\%}}{\text{Operating Income}}$$

Funded Asset and Service Provision Costs

In the Annual Budget and Long Term Financial Plan, the full cost of providing services to the Community will be included. Council will provide for the appropriate maintenance, replacement and upgrade of existing assets.

Existing assets will be maintained to a level that ensures their economic life is maximised. Council will continue to maintain and/or replace needed assets (e.g. roads and footpaths) to ensure they can continue to provide benefit to the community.

Council supports the principle that existing infrastructure will be maintained to a reasonable and serviceable level as a priority over building or acquiring additional infrastructure. Building or acquiring additional infrastructure commits Council to increased maintenance responsibilities, which may be funded by either:

- additional Council rate increases; or
- decreased service maintenance levels.

A key measure of whether or not a Council is renewing or replacing existing non- financial assetsat the same rate that its overall stock of assets is wearing out is the Asset Renewal Funding Ratio. This is a percentage calculated by:

$$\frac{\text{Capital expenditure on renewal or replacement of assets}}{\text{Infrastructure and Asset Management Plan required expenditure}} \times 100\%$$

This calculation does not include capital expenditure on the acquisition of additional assets.

Council aims to achieve an Asset Renewal Funding Ratio of 100% over the medium term to ensure capital outlays on renewing/replacing assets will be close to the Asset Management Plansover a 3 year period [i.e. **>90%, <120%**].

Review of Assets

Existing assets will be reviewed to ensure they are achieving a strategic plan outcome. If the assets are not providing a benefit in accordance with the Strategic Plan then Council will seek community support to use the value in the assets to fund capital or refurbishment expenditure and thus maintain community wealth.

In acquiring new assets, the following factors should be considered:

- Council's current Operating Surplus / Deficit position
- Any additional depreciation and maintenance cost
- Any relevant interest cost and the impact on the Operating Surplus / Deficit position
- The requirement to increase Council rates to fund acquisition and ongoing costs
- The age, life expectancy, suitability and service potential of any asset to be replaced
- Discounted cash flow analysis, where appropriate.

Council assets will be reviewed on a regular basis and those assets identified as less-needed assets (e.g. parcels of undeveloped land) may be sold to raise funds for more desirable community facilities. Asset sales will not be used to fund operations.

Debt Limitations

It is appropriate for Council to have a level of debt to fund investment in new infrastructure assetsso that future generations make a contribution to assets that are built now and are enjoyed in the future. The level of borrowings needs to be controlled and a key financial indicator in relationto debt is the Net Financial Liabilities Ratio.

The Net Financial Liabilities Ratio indicates how significant the net amount of debt owed to othersis compared with operating revenue and is calculated by:

$$\frac{\text{Net Financial Liabilities}}{\text{Total Operating Revenue}} \times 100$$

Council will aim for a Net Financial Liabilities Ratio of between 0 and 80%

Council Rate Increases

Council's Annual Business Plan will include a level of rates income that reflects the cost to Councilin continuing to provide existing services at the defined level of service and to fund the costs included in the adopted Asset Management Plans and investment in new capital assets as included in the Long Term Financial Plan.

Note that if Council is planning to provide new or additional services then the cost of these may require an additional rate increase.

Any rate increase will take into account items such as the Consumer Price Index (CPI), the Local Government Price Index (LGPI), Enterprise Bargaining Agreements (EBA's) – which outline agreed growth in employee wages and salaries and any other costs to Council. This will ensure that appropriate increased levels of income cover the main drivers of Council's expenditure.

Council's Elected Members will determine, after consultation with the community, whether the priority and focus of the Annual Business Plan are appropriate or whether any new initiatives or higher service standards have sufficient community support to justify higher rate increases.

Underlying Operational Result

An Underlying Operational Result is the restatement of the operating surplus/deficit to take account of timing differences associated with material income or expenditure transactions accounted for in a period to which it does not strictly apply to. This would include adjustments for the timing of the Financial Assistance Grants which would be adjusted to provide a more meaningful comparison of year on year reported operating result.

DEFINITION

As included in the Local Government Act 1999