

## Financial Strategy 2018

<b>Department/Unit:</b> <i>Finance Department</i>	<b>First Implemented:</b> <i>20 November 2018</i> <b>Effective From:</b> <i>20 November 2018</i> <b>Review Date:</b> <i>30 June 2021</i> <b>Version:</b> <i>01</i> <b>Trim Reference:</b> <i>E698</i>	<b>Origin:</b> Responsible Officer <i>Finance Manager</i> Authorising Officer: <i>Chief Executive Officer</i>
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### PURPOSE/OBJECTIVE

The main objectives of this policy are to:

1. Provide direction and context for decision making in the allocation, management and use of Mansfield Shire Council's financial resources.
2. Guide Council in the development of the ten year long term financial plan and determine financial boundaries for delivery of operational and capital plans.
3. Assist Council to manage ratepayer's money, together with other funding available, to provide prioritised services and improve financial sustainability and asset management.

### POLICY STATEMENT

#### Introduction

Mansfield Shire Council's Financial Strategy provides a clear direction and context for decision making that guides the allocation, management and use of its financial resources. It aims to ensure that Council remains financially stable while giving focus to financing key Council priorities through strong financial management. It acts as the catalyst for improving efficiency and releasing resources to improve frontline services and continuity.

The Financial Strategy sets the parameters within which Council agrees to operate in order to maintain accepted financial outcomes and should be viewed as an enabling Strategy that aims to provide financial stability, affordability, focused delivery and value for money, over the short, medium and longer term.



## Challenges

Council is committed to creating a stable and sustainable financial environment that will allow Council to provide its existing levels of service without significant change to future income requirements. Mansfield Shire Council will continue to face challenges that require strong financial leadership and creative solutions applied to matching its community's aspirations to its capacity and desire. The key challenges faced over this period include:

1. Consolidating Council's understanding of the community's needs, wants, desires and priorities for services and service levels and matching that to the organisation's capacity to sustainably fund the provision of agreed services.
2. Providing capacity to meet contemporary and increasing expectations from all areas including community, customers and government.
3. Ensuring future decisions provide affordable long term solutions that are within the financial capacity of our community.
4. Delivering organisational change to improve efficiency and quality of service.
5. Managing financial risk associated with significant growth and development of new infrastructure and services.

The following aims and parameters are designed to assist Council in achieving financial stability, affordability, focus and efficiency:

## STABILITY

### Available Funds

Council will aim to maintain Available Funds (the unallocated portion of all future revenues) at a minimum of \$3 million as at 30 June each year.

Available Funds are funds that Council has earned but not allocated to specific expenditure in the past or future. They are held as Council's savings and are used to act as a buffer against unanticipated future costs, or can be used to provide flexibility to take advantage of opportunities that may arise or cover cash outflows that occur prior to inflows in a given year (which can be common given the rating income cycles).

While the Available Funds balance may fall below the targeted level in a period, the onus in planning is to ensure adequate adjustment is made to restore the balance through future programs, within an acceptable timeframe.

### Debt

Council will remain a low debt user by maintaining a debt service ratio (principal and interest repayments per annum compared to rates) below 20%.

Council will only use debt to fund capital expenditure. The term of any debt shall not exceed the life of the asset it is used to fund.



Debt will be considered as part of the Capital Budget process and will only be approved where there is an agreed economic, social or environmental benefit from a project and other sources of funding are not available.

Council currently has a low level of debt reflected by a current debt service ratio of 4.01% (June 2018). The expected range under the Local Government Performance Reporting Framework suggest that the debt service ratio should remain between 0% and 20% while debt levels (measured as total loans and borrowings compared to rates) should remain between 0% and 70%. The debt levels permitted under this Strategy would add flexibility to future programs where warranted.

## **Operational Result**

Council will plan to maintain a small operational surplus (average over four years).

The operating result is considered to be one of the main indicators of the long term financial viability of Council. In broad terms, a deficit from operations indicates that Council is not earning sufficient revenue to fund its ongoing operations (services) and continue to renew the assets, which are an integral part of that service, when required. The indicator includes accounting and engineering estimates relating to the consumption of long lived assets (depreciation) which is used in determining this result. Council will plan based on the best information available.

## **Council will plan for Asset Renewal Funds at least equal to Depreciation.**

Funds Available from Operations is a Mansfield Shire Council indicator that is considered to be a more reliable indicator of Council's capacity to manage its assets over the longer term. Unlike the Operating Result, it does not include non-cash transactions and excludes transfers to and from funds which are externally or internally restricted (Restricted Assets). Council's current Financial Strategy is to invest sufficient funds into annual asset renewal to cover the depreciation on existing assets. This depreciation target is a proxy for the long term annual funding requirement to replace Council's assets at their gross replacement value. Refinement of this target over time (through the implementation of Assetic) will need to reflect the actual annual asset replacement requirements rather than depreciation, as replacement requirements will not be consistent from year to year due to the age and estimated replacement dates of specific assets.

## **AFFORDABILITY**

### **Total Funds Result**

Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows. Where Available Funds levels are above minimum requirements, consideration for the remaining allocation of funds will first be given to deferred asset renewals (ie bringing forward capital renewal projects identified in the long term financial plan) or investments that reduce future operational costs (ie repaying debt, or development of capital projects that will lead to recurrent operating savings).

Short term stability requires the annual budget is affordable and cash is managed to ensure that payments can be made as required. By holding a level of available funds and planning for near breakeven funds results, this position can be maintained.



## **Capital Expenditure**

The full life cost of capital expenditure will be considered before capital projects are approved. Asset renewal, maintenance and operational costs impacting on future budgets will be included in forecasts as part of the capital budgeting process.

Capital expenditure decisions need to be fully informed by understanding the impacts on future results. For example, a building cannot be considered as a one off cost, it will have operational costs for electricity, water and consumables and will normally involve services that will require operational budgets, including employee costs. The building will then need to be maintained and eventually renewed and/or be disposed of. Consideration of these costs and any potential revenue must be part of the initial evaluation and approval process and be recognised in future estimates to aid future planning.

## **Employee costs**

Forecast employee costs will be based around the annual increase included in the current Enterprise Agreement, except where there is strong evidence to suggest a significant change.

Where the Enterprise Agreement expires prior to the forecast period, Council will apply best estimates using information available at the time (ie recent Victorian local government Enterprise Agreements and/or Department of Treasury and Finance forecasts for Consumer Price Index and Wage Price Indices).

## **Rates, Fees & Charges**

Rating structures and differential pricing between categories will be considered as part of the Rating Strategy development.

Council's pricing methodology will be applied consistently for all fees and charges. Fees & Charges will be reviewed on an annual basis to ensure compliance.

Council's revenue strategies will be considered as part of the longer term financial planning in accordance with this Strategy. General rates increases are determined by the Minister for Local Government through a 'rate capping' mechanism that has generally been in line with increases in the Consumer Price Index. Rate variations beyond this level will be linked to community aspirations for services which will be considered in conjunction with other revenue options and cost reduction opportunities.

Council will set waste charges to recover the budgeted cost of the waste collection and disposal service over a four-year period. Any surplus derived from previous financial years will be offset against future years, reducing the income required to be derived in any given year. See Discretionary Reserves below for more details on waste management charges.



## **Sale of property**

Income from forecast sale of property will not be included in the budget until a Notice of Sale has been passed by way of Council Resolution.

Budgeted income from sale of property will be estimated at the carrying value of the property to avoid broadcasting likely sale prices and compromising a fair and open market transaction.

## **Investment of Surplus Cash**

Council will invest surplus cash in accordance with its Investment Policy.

Returns from investments vary from year to year based on interest rates and the level of cash held. From a planning perspective, it is deemed prudent to ensure that Council's investment returns are not funding ongoing operations which would be a risk when returns reduce. For this reason, it is considered reasonable to apply these funds to capital (or one off projects) that do not impact on future operational costs. It is also important to understand that predicted future returns may not be realised and funding may not be available as expected.

## **FOCUSED DELIVERY**

### **Operational Services**

Council's Delivery and Operational Plans will be used to:

- determine core and value added services,
- identify, deliver, and report on business improvement initiatives, and
- set actions to improve service levels, costs, and delivery methods

Alignment of Council services with the endorsed four year Council Plan will continue to play an important part in determining the future needs and operations of the organisation. Assuring that the right things are done in the most efficient way and being able to measure that performance should provide a sound platform for communicating and planning to meet community expectations.

### **Capital Delivery**

Council will achieve its expenditure targets for capital renewal by programming these works with sufficient flexibility to allow re-phasing, deferral and/or the introduction of other deferred renewal works as required.

Council plans for substantial capital works each year. The planned works are in varying stages of maturity when they are adopted by Council and some projects may change in delivery time due to the issues that arise through the planning, community engagement, procurement and delivery phases. Council's financial goal is to endeavour to provide the full value of the annual capital program. This may be achieved, where necessary, by repositioning projects within the agreed four-year program.



## **Carry forward of capital projects**

Where a capital project has been approved by Council in the preceding annual budget, but incurred delays for whatever reason, the project will be carried over into the following year as a Carry Forward Project, subject to the requirements of the Carry Forward Projects policy.

## **Grant Funding and other Capital Contributions**

Council will actively pursue grant funding and other contributions to assist in the delivery of core services and capital programs.

Operational grants and contributions for specific purposes (non-recurrent) currently provide around 2% (2017-18) of Council's revenue. Capital grants currently provide around 8% (2017-18). Continued effort in obtaining and improving Council's success in targeted grant funding is vital to future performance and stability.

Where a capital project is budgeted contingent of receiving grant funding, and council is unsuccessful in securing the full amount of funding as budgeted, the project will not go ahead.

## **Discretionary Reserves**

Council will maintain discretionary reserves including:

- Developer contributions
  - Open space
  - Car parks
  - Roads
  - Footpaths
- Waste management

All reserves will be reviewed annually to ensure funds are utilised in accordance with their intended purpose and reduce balances that have remained in reserve for a significant length of time.

### ***Developer contributions reserves***

Council does not have a Developer Contributions Scheme and therefore all contributions are voluntary.

Developer contributions (voluntary) will be parked in the relevant open space, car parks, roads or footpaths reserves until expended on identified capital projects.



## ***Waste management reserve***

There is an underlying principle applied in the *Local Government Act 1989* (the Act) recognising that local government may apply full cost recovery to ratepayers for the provision of waste collection and disposal services within the municipality. The Mansfield Shire Council Rating Strategy provides for the full cost recovery of waste management expenditure for each of the waste streams (kerbside waste, kerbside recycling and community/public waste). The Mansfield Shire Council Adopted Budget provides for the full cost recovery of waste.

Created for the first time during the 2019-20 budget process, reserve funds will be established to report the net surplus/(deficit) between waste charges collected from ratepayers and actual waste costs incurred by Council in the financial year for each waste stream.

The calculation of net surplus/(deficit) for the financial year, for each waste stream, is as follows:

- Kerbside waste service:

The cost of kerbside waste incurred by Council in the provision of this service including:

- kerbside waste collection (including hard waste);
- landfill disposal (including the State government's landfill disposal levy);
- waste collection bin renewal;
- waste and litter education;
- management of illegal dumping of waste;
- membership of the Regional Waste Management Group;
- roadside e-waste collection; and
- a proportion of the corporate overheads directly attributable to waste management (administration staff costs, strategy development costs, contract negotiation etc)

and offset by:

- kerbside waste service charges collected from ratepayers via the annual rate notice

- Kerbside recycling service:

The cost of kerbside recycling incurred by Council in the provision of this service including:

- kerbside recycling collection;
- recycling collection bin renewal;
- recycling education; and
- a proportion of the corporate overheads directly attributable to recycling management (administration staff costs, strategy development costs, contract negotiation etc)

and offset by:

- kerbside recycling charges collected from ratepayers via the annual rate notice; and
- recycling disposal income received.





- Community (public) waste service:

The cost of community waste services incurred by Council including:

- the collection and disposal of public waste;
- operation of the Mansfield Resource Recovery Centre;
- operation of the Woods Point transfer station;
- rehabilitation of the closed Mansfield Landfill;
- clean up and disposal of waste from public land due to a severe weather event (that is not eligible for Natural Disaster Funding support);
- street cleaning and sweeping; and
- litter traps (stormwater);

and offset by:

- community waste charges collected from ratepayers via the annual rate notice.

The above inclusions may change from time to time based on legal advice, changes to statutory requirements or guidance from Local Government Victoria.

The waste management reserve will be managed to ensure it remains as close to nil as possible.

Further details on Council's waste management service are included in Council's Waste Management Service Policy.

## EFFICIENCY - VALUE FOR MONEY

### Service Reviews

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 customers.

It is intended that all services be reviewed on a cyclical basis over a period of time, with each service reviewed at least once during a Council Plan period. During each review the service budget will be zero based in line with the agreed service levels.

Council will deliver procurement savings through strategic procurement and collaboration with other authorities and agencies where possible and beneficial to Council.





## DEFINITIONS

<b>Long Term Financial Plan</b>	A ten year financial forecast and budget.
<b>Strategic Resource Plan</b>	A four year plan prepared under the <i>Local Government Act 1989</i> indicating how Council will allocate resources to deliver the aspirations of the Council Plan.
<b>Debt service ratio</b>	A percentage calculated as principal and interest repayments / general rates in a given year.
<b>Capital expenditure</b>	Expenditure on a long lived asset (ie an asset that is expected to deliver benefits for a period longer than 12 months). Generally a physical asset such as plant, equipment, or infrastructure.
<b>Local Government Performance Reporting Framework</b>	The legislated framework through which all Victorian local Council's are required to report specific KPI's, allowing benchmarking across the sector. All information is available publically via the "Know Your Council" website.
<b>Asset renewal</b>	Capital expenditure that renews an existing asset to its optimal level
<b>Assetic</b>	Council's asset management software system
<b>Developer Contributions Scheme</b>	A framework developed in accordance with the <i>Planning and Environment Act 1987</i> , under which payments or in-kind works, facilities or services are levied to developers for the supply of infrastructure required to meet the future needs of the community.
<b>Zero based</b>	a methodology used to build a budget from the bottom up, assuming a starting position of nil. The alternative to zero based budgeting is a roll forward approach, or top down budgeting
<b>Roll forward</b>	a methodology used to build a budget whereby the prior year budget is assumed as the starting point, and adjustments are made where required
<b>Top down</b>	a methodology used to build a budget whereby a total dollar figure is determined at a broad level (ie department or organisational level), and the services delivered are designed to fit within that specified figure.



## SCOPE

This policy applies to all Council employees, Councillors, contractors, consultants, volunteers and other authorised personnel of Mansfield Shire Council.

## RESPONSIBILITIES

Overall responsibility for the application of this Policy is held by the Chief Executive Officer.

Managers are responsible for ensuring their staff comply with the principles, practices and any associated procedures of this policy. Management, employees, contractors and volunteers are to be familiar with, and competent in, the application of this Policy, and are accountable for the delivery of this policy within their areas of responsibility.

The Finance Department is the owner of this policy. Any reviews of this Policy must be made in consultation with the Finance Manager.

## REFERENCES / RELATED POLICIES

*Local Government Act 1989*  
Mansfield Shire Council Carry Forward Projects Policy  
Mansfield Shire Council Plan  
Mansfield Shire Council Strategic Resource Plan  
Mansfield Shire Council Long Term Financial Plan  
Mansfield Shire Council Annual Budget  
Mansfield Shire Council Enterprise Agreement


## IMPLEMENTATION


This Policy is effective from 20 November 2018.

## REVIEW DATE

This Policy is aligned with the term of the Council Plan, and should be reviewed by 30 June 2021.

## AUTHORISATION TO IMPLEMENT POLICY

Signed:   
\_\_\_\_\_  
Councillor

Witnessed:   
\_\_\_\_\_  
Chief Executive Officer

Approval dated: 20 November 2018

**Mansfield Shire Council reserves the right to review, vary or revoke this Policy at any time.**