Financial Management Strategy

PURPOSE

The objectives of this strategy are to ensure City of Launceston (CoL):

- is financially sustainable and affordable for the community over the long term, while maintaining acceptable levels of service;
- employs a continual improvement mindset;
- achieves consistent small underlying surpluses as a basic measure of financial sustainability; and
- achieves intergenerational equity.

SCOPE

The Financial Management Strategy is a guiding set of principles which assist guiding City of Launceston in making prudent strategic financial decisions. It is intended to be used by both Councillors and Council officers.

POLICY

Targets to achieve objectives

The objectives of this strategy will be achieved by:

- adoption by Council of an appropriate rating strategy to ensure long term financial sustainability.
- aim for rate increases no greater than the prevailing Council Cost Index, unless circumstances dictate a departure from this strategy to ensure the Council remains sustainable.
- level of service reviews to be completed on an ongoing basis to ensure services remain appropriate and in line with long term financial sustainability and community expectations.
- where feasible 'user pays' principles will be applied.
- ongoing review and implementation of the Long Term Financial Plan (LTFP).
    - annual review of the LTFP and accompanying model;
    - integration of the LTFP and other corporate planning documents such as the Strategic Asset Management Plan (SAMP) and the Strategic Plan;
    - measurement and reporting of key sustainability indicators in the LTFP and Annual Report; and
    - negotiate a new ownership and governance model for UTAS Stadium and the Queen Victoria Museum and Art Gallery to reduce the ongoing recurrent expenditure the City of Launceston invests annually in these two significant regional assets.
- capital expenditure.
    - capital projects will be required to submit detailed business case proposals to allow for suitable rigor in the Capital Works Program selection process;
    - budgeted depreciation expense will be used as the baseline for the asset renewal budget. Asset renewal requirements will be informed by the Strategic Asset Management Plan and asset class Asset Management Plans;
    - priority will be given to capital projects that demonstrate they will provide a revenue stream or cost saving through efficiencies or asset disposals; and
    - capital projects with a value of and greater than $1,000,000 will be required to utilise Council's Net Present Value (NPV) tool. This will better inform the long term financial implications of each project.

- have an appropriate mix of revenue streams including rates, fees and grants.
  - reduce CoL's reliance on rate income;
  - annually review fees and charges to ensure they are appropriate;
  - apply for grant funding for capital and operational projects where appropriate; and
  - monitor Financial Sustainability Indicators, particularly Rate Coverage Ratio and Grant Coverage Ratio, to ensure revenue mix is suitable.
- Borrowings.
  - will be considered to fund major new and upgrade projects when the proposed new borrowing is supported by a comprehensive business case for each project and the asset is such that it can be considered intergenerational;
  - will be considered if the cost of borrowing is funded by increased revenue or cost savings generated by the project;
  - will not be used to fund ordinary business operational costs, except for unexpected emergencies (ie.COVID-19 or extreme natural disasters);
  - will not be used to fund capital renewal projects; and
  - will be monitored using the Debt Service Ratio, to ensure Council has the capacity to meet required repayments.
- operating cash surpluses sufficient to fund
  - the annual capital works program (excluding major new additional assets); and
  - 100% of the annual principal repayment of loan debt.

Capital Assumptions
Using annual deprecation levels as a baseline measure, and including a constrained program for new capital projects, the resulting annualised program will be included in the LTFP scenario modelling.

- Beyond 2018/2019, capital assumptions are informed by the SAMP.
- Contains a fully funded renewals program.
- Includes $2,000,000 annual allocation to address the renewal backlog.
- Balance of funding allocated to new and upgrade projects.
- The intention is not to prescribe what projects are adopted, simply the value of funding available.

Financial Sustainability Indicators

Ratio	Definition	Benchmark (from Annual Report)
Underlying Surplus or Deficit	The recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of Council for the financial year less the recurrent expenses of Council for the financial year. Serves as an overall measure of financial operating effectiveness.	Greater than zero
Underlying Surplus Ratio	The underlying surplus or deficit divided by the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) for the financial year. Serves as an overall measure of financial operating effectiveness.	Greater than zero
Net Financial Liabilities	Total liabilities less liquid financial assets (cash and cash equivalents plus trade and other receivables plus other financial assets). Indicates what is owed to others less money held, invested or owed to Council.	Greater than zero
Net Financial Liabilities Ratio	Net financial liabilities divided by recurrent income. Indicates the extent to which net financial liabilities could be met by operating income.	0% to -50%
Asset Consumption Ratio	The depreciated replacement cost of plant, equipment and infrastructure assets divided by the current replacement cost of depreciable assets. Indicates the level of remaining service potential in the Council's existing asset base.	Greater than 60%
Asset Renewal Funding Ratio	The current value of projected capital funding outlays for an asset class identified in the long-term financial plan divided by the value of projected capital expenditure funding for an asset class identified in the long-term strategic asset management plan of Council. Indicates the Council's asset renewal and replacement performance.	90% to 100%
Asset Sustainability Ratio	The amount of capital expenditure by Council in a financial year on the replacement and renewal of existing assets divided by Council's annual depreciation expense for the financial year. Indicates Council's capacity to fund future asset replacement requirements.	80% to 100%
Debt Service Ratio	Total Principal repayments and interest expense divided by operating revenue (excluding Capital Grants). Indicates the amount of recurrent income that is used to repay debt and interest charges.	0% to 20%

RELATED POLICIES & PROCEDURES
12-HLPr-008 Financial Management - Management and Operation Diagram
12-SDx-004 City of Launceston Long Term Financial Plan 2019-2029 (LTFP…
12-Plx-012 Asset Management Policy
30-SDx-001 City of Launceston Corporate Strategic Plan 2014-2024: 2019…
30-SDx-003 City of Launceston Strategic Asset Management Plan 2019-203…
30-Pl-004 Risk Management Policy

RELATED LEGISLATION
Local Government Act 1993 (Tas) section 70A
Australian Accounting Standards

DEFINITIONS
CoL - City of Launceston
LTFP - Long Term Financial Plan
SAMP - Strategic Asset Management Plan
NPV - Net Present Value
CPI - Consumer Price Index
CCI - Council Cost Index

REVIEW

This policy will be reviewed no more than four years after the date of approval or more frequently, if dictated by operational demands.