

## Financial Sustainability – Forward Financial Planning and Funding Allocation

<b>Policy Type: Council Policy</b> <b>Policy Owner: Director Corporate Services</b>	<b>Policy No. CP- 008</b> <b>Last Review Date: 19 June 2018</b>
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### Policy Objectives

To establish clear principles and guidelines that will form the basis for the development of:-

1. the Long Term Financial Model and Plan;
2. the Annual Budget;
3. the Funding Allocation Prioritisation Methodology.

to ensure

- a. robust and transparent financial planning processes are established;
- b. good stewardship of the City of Melville's (City) assets and the continuing delivery of services both now and into the future; and
- c. significant annual variations in rates and charges are eliminated.

### Policy Scope

This Policy covers all City of Melville budget funded operations.

### Policy Statement

The City of Melville recognises the need to plan for the current and future needs of its citizens in a socially, culturally, environmentally and financially sustainable manner.

The City's long-term financial performance and position is considered sustainable when planned long-term service and infrastructure levels and standards are met without undue reliance on:

- a very limited number of revenue streams;
- uncontrollable, temporary or highly variable revenue sources;
- large variations in rates increases; or
- unplanned cuts to services.

#### 1. Long Term Financial Plan

Financial sustainability is addressed in the Long Term Financial Plan which demonstrates this commitment by employing the following principles:-

- 1.1. The Long Term Financial Plan is to be formulated in a manner which addresses the strategies and deployment objectives outlined in the City's Strategic Community Plan, Corporate Business Plan and other informing documents such as Asset Management and Workforce Plans;

- 1.2. The Long Term Financial Plan is to summarise the financial resources that will be generated and consumed by each programme area and major revenue and expenditure category over a ten year period and be further classified as operating or capital;
- 1.3. The Long Term Financial Plan will be underpinned by the Long Term Financial Model;
- 1.4. The Long Term Financial Model is to provide the financial basis for development of the Annual Budget;
- 1.5. The Long Term Financial Plan is to result in a nil surplus/deficit for each year covered by the plan i.e. expenditure (excluding depreciation but including transfers to Reserves) will be matched by sufficient revenue (including surplus/deficit brought forward from prior years and transfers from Reserve) to maintain a balanced financial position;
- 1.6. Revenue sources and expenditures that are not controllable by the City and which are prone to significant variation (such as investment earnings) will be included at long run average numbers, as major fluctuations in these will result in significant variations in annual rates and charges;
- 1.7. Cash backed specific purpose reserve accounts have been established in order to save for asset renewal or replacements and to help smooth the major fluctuations in annual expenditure which occur in respect to these assets. Cash backed reserves have also been established to recognise the carry forward amount of unexpended operating and capital projects and grants. A reserve will also be used to retain any year end surpluses. This reserve will then be used to help smooth rate increases in following years;
- 1.8. Funding for capital and infrastructure projects will be by a combination of revenue sources including operational surplus, rates and service charges, cash backed reserves, asset sales, borrowings and other asset financing arrangements;
- 1.9. The Long Term Financial Plan will be developed on the basis that intergenerational equity will be maintained i.e. that the full cost of providing services and the use of community assets will be met equitably by all generations of ratepayers who enjoy the benefits of those services or assets. This means that current generations should not be called upon to fully fund the acquisition of assets or services that will also benefit future generations, or that current generations will not enjoy the consumption of services or assets at less than their real cost, thereby leaving an unfunded financial burden (liability) to future generations. If left unchecked, the divergence between cost and revenue growth would result in operating deficits. These deficits should **NOT** be funded by deferring infrastructure maintenance and renewals expenditure but eliminated using cost or service level reductions, or revenue growth;
- 1.10. In view of the variability and potential risk of significant reductions in untied government grants, such as the Federal Governments Financial Assistance Grant (FAG), due to redistribution to other less financially sustainable local authorities or due to the restricted financial capacity of the Federal or State Governments, the City of Melville will seek to reduce it's reliance on such grants to fund its day to day operations and maintenance requirements. This will be achieved over time as funds permit by ensuring such funds are earmarked to finance the cost of non-recurrent projects or by transferring them to appropriately designated cash backed reserve accounts. This principle recognises that untied grants may be of a temporary nature and that in order to ensure financial sustainability, it would be prudent for the City to maximise its capacity to fund its current operations using own source revenue. The untied roads portion of the Federal Assistance Grant will however be used solely to maintain or renew roads infrastructure, as that portion of the grant is calculated with reference to the City's road network and maintenance needs.

- 1.11. The Long Term Financial Model will be annually reviewed, amended and balanced to the financial resources available in accordance with this policy, the Council's Revenue (to be developed) and Borrowings & Asset Financing policies and the Annual Budget adopted by the Council and other factors that emerge post budget and workshopped with the Council;
- 1.12. To provide sufficient guidance and time for officers to commence preparation of the Annual Budget, a Budget Parameters report based on the updated Long Term Financial Model, is to be presented to the Council for re-adoption by the end of December in each calendar year.
- 1.13. The Long Term Financial Plan will be reviewed and presented to the Council for adoption every four years.

## **2. Annual Budget**

- 2.1. The Annual Budget is to be prepared using the same principles and guidelines as the Long Term Financial Plan and Model, with adjustments being made for any new information or issues that have come to light since adoption of the latest Model;
- 2.2. The Annual Budget will include forecast year end information for the prior financial year and annual budget estimates for the specific financial year covered by the budget;
- 2.3. Over time as data, systems and processes improve, budget development will be undertaken using a rolling budget methodology and forward estimates extended to the current budget year;
- 2.4. Over time as data, systems and processes improve, the Annual Budget will, in addition to estimating financial resources required, show where practicable and reliably measurable, other applicable resource inputs e.g. labour, contract and materials as well as outputs and outcomes to enable measurements of efficiency and effectiveness to be conducted as well as enabling users to make value for money judgements;
- 2.5. Revenue from rates, service charges and fees for services will be developed in accordance with the City of Melville's Revenue Policy and that policy will recognise that rates, service charges and fees for services need to reflect the full cost of services and asset consumption in accordance with principle 1.9 above;
- 2.6. Time permitting, the Annual Budget is to be presented to the Financial Management, Audit, Risk and Compliance Committee for consideration and comment prior to being forwarded to Council for adoption in June of each year;
- 2.7. The Council shall use its best endeavours to adopt the Annual Budget in June of each year so as to ensure that the cash flow of the City of Melville is maintained and investment revenue opportunities are maximised;
- 2.8. Re-allocation of budget resources during the year and surplus loan funds on completion of works shall be dealt with in accordance with the provisions of the *Local Government Act 1995* and applicable regulations with such amendments being approved by an Absolute Majority resolution/decision of the Council.

### **3. Planning For The Future**

The City's Strategic Community Plan, the Council's Corporate Business Plan and informing plans and documents will comprise the planning for the future documents required to be developed in accordance with section 5.56 of the *Local Government Act 1995* and clauses 19(C) and 19(DA) of the *Local Government (Administration) Regulations 1996*.

### **4. Funding Allocation Prioritisation Methodology**

As there are many competing demands for limited financial and physical resources, the City of Melville recognises the importance of establishing an enterprise wide prioritisation methodology that enables the effective allocation of those resources.

To ensure statutory compliance, acceptable levels of risk, good stewardship of community assets for all generations and equity and long term financial viability, assessment of funding requests will be based on the following key principles and prioritised in the following manner:-

- ✓ Activities required to ensure compliance with statutory obligations or standards;
- ✓ Risk mitigation activities or projects that are required to reduce extreme or high level risks (as determined by using the City of Melville Risk Assessment Matrix or another agreed risk assessment method) to, as far as practicable, an acceptable level;
- ✓ Current operational funding for programmes unless the operational need for any of those programmes has been superseded;
- ✓ Maintenance of existing assets (infrastructure) in a manner that will maximise their useful life and ensure they remain fit for purpose;
- ✓ New programmes or assets required to meet demonstrable organisational or community needs as identified through community and corporate planning activities and Council decisions based on advice of technical/professional staff.

### **5. Expenditure Limits**

The Chief Executive shall set expenditure limits and other conditions deemed appropriate for each officer with all such expenditure being carried out in accordance with the Annual Budget as amended from time to time.

**References that may be applicable to this Policy**

Legislative Requirements:	<i>Local Government Act 1995 Section 5.56</i> <i>Local Government (Administration) Regulations 1996</i> Division 3
Procedure, Process Maps, Work Instructions:	Financial Planning and Control Directorate Procedure
Other Plans, Frameworks, Documents Applicable to Policy:	CP-024 Borrowings and Asset Financing
Delegated Authority No:	N/A

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**ORIGIN/AUTHORITY**

Corporate & Community Services Committee

18/03/97

**ITEM NO.**

Formerly Finance Policy 1

**REVIEWS**

Corporate & Community Services Committee  
Community & Technical Services Committee  
Community & Technical Services Committee  
Ordinary Meeting of Council  
Ordinary Meeting of Council  
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17/05/2016  
20/06/2017  
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A01/1017  
C04/5010  
C05/5010  
C07/001  
C09/5097  
C11/5199  
C13/5341  
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