Attachment 1

20 Year Strategic Financial Plan - *Guiding Principles* ~~***Statement***~~

The Guiding Principles ~~*Statement*~~ set~~s~~ out the foundation~~ and basis~~ on which the 20 Year Strategic Financial Plan (~~the Plan~~SFP) has been developed and which will also apply to its ongoing review and use.

The Guiding P~~p~~rinciples are founded on the City's Governance Framework.

The Framework consists of four (4) key principles required to achieve excellence in governance:

- Culture and Vision.
- Roles and Relationships.
- Decision-making and Management.
- Accountability.

Decision-Making and Management is the key driver of the Guiding Principles~~ *Statement*~~. ~~In particular section 9.5.1 Financial Management Planning and Principles~~

The Guiding Principles are presented in two parts, one part represents Basic Principles that are prudently used in the development of a financial plan and the other represents K~~k~~ey E~~e~~lements/A~~a~~ssumptions as considered in the development of the ~~Plan~~SFP.

Basic Principles:

- **Sustainability:**

  The ~~Plan~~ SFP will be developed on a principle of financial sustainability. The ~~Plan~~ SFP must provide for and ensure the protection of the City's financial capacity and viability into the future and mitigate risks to the City's and the community's assets.

- **Transparency:**

  The ~~Plan~~SFP will be transparent and include disclosure, clarity and access to information related to the plan and the underlying assumptions contained therein.

- **Prudence:**

  The City will base the ~~Plan~~ SFP on the exercise of sound financial judgement based on facts as known at the time and will apply reasonable tests to the assumptions deployed in the ~~Plan~~SFP's estimations to confirm their validity. Prudence will encompass anticipating and planning for change.

- **Consistency:**

  The City will apply discipline and adhere to agreed principles in the development and use of the ~~Plan~~SFP to avoid fluctuating impacts and compromises to the validity of the projections.

- **Performance and Accountability:**

  The ~~Plan~~ SFP is a key element of the City's Planning Framework and will be used as the foundation for the preparation of the Annual Budget. The City will review the SFP~~Plan~~ at least annually to assess it against the adopted budget and to review the forward projections.

- **Flexible Long Term Approach**

  Where there are years where the City is unable to achieve the overall objective of a nil closing Municipal cash balance, then revenue streams that were otherwise intended to be placed in reserve (such as Tamala Park land sales), may be used in the short-term to achieve a balanced budget. ~~rather than going direct to reserve subject to the funds being required to be~~ The Municipal fund will pay ~~paid~~ back to the reserve fund at the earliest opportunity to ensure that the original purpose of the proceeds and reserve funds are maintained.

- **Service Levels and Asset Management**

  Local government is asset intensive, and the SFP is therefore driven by the demands of providing and maintaining City assets and delivering appropriate levels of service to the community. Financial sustainability is equally important, and affordability of desired service levels and preferred asset management plans has to be weighed up with prudent financial management.

Key Elements/Assumptions:

Targets ~~/~~ Ratios

- The City reports against eight ratios, seven are Department of Local Government (DLG) ratios. Whilst recognising that all seven DLG ratios are important, the City's long term plan will focus primarily on:
  - Operating Surplus Ratio % (Operating Results).
  - Debt Service Ratio % (Treasury Management).
  - Asset Sustainability % (Asset Management).
  - Rates Increase 5% or less.

- Projections will be based on the notion that each year in the ~~plan~~SFP should as close as possible be balanced (closing Municipal cash balance). In this respect the City will generate an annual operating surplus sufficient to allow it to meet:
  - additional financial costs for new capital expenditure
  - projected net annual operational costs of new facilities that become operational
  - projected annual operational costs and capital expenditure on existing infrastructure

- The Strategic Community Plan 2012-2022 has a target to maintain a positive operating surplus ratio that exceeds 0%. The SFP will aim to achieve an Operating Surplus Ratio between 2% and 8%, based on a 5 year average.

- Growth in operating revenue will be ~~at least 1%~~ in excess of the growth in operating expenditure, in so far as necessary to achieve the Operating Surplus targets.

Funding ~~/~~ Treasury ~~/~~ Reserves

- The City is an asset intensive business, and as such loan funding could be expected to be used to fund capital expenditure. Loans may be planned for, but only where:
  - It is in accordance with the City Borrowing Strategy.
  - Debt Service Ratio is not to exceed five consecutive years with an annual debt service cover ratio of between two and five, with all other periods exceeding a ratio of five.
  - Building infrastructure of a capital nature may be funded by loans but with a loan term~~s~~ not exceeding 50% of the life of the asset.

- If the cost of borrowing is cheaper than earnings on cash reserves, then the City ~~should~~ may seek to use ~~external~~ loans even where there are reserves available for specific projects. ~~while remaining consistent with the borrowing strategy~~.

- Revenue from the Tamala Park land sale should be applied in accordance with the City's adopted Strategic Position Statement.

- The Strategic Asset Management Reserve is able to be applied to fund projects based on an internal payback mechanism. Municipal funds should pay back to the Strategic Asset Management Reserve principal and interest over a 10 year period. The payback mechanism should only be used where affordable for the municipal fund such that the overall objective of achieving a net nil closing balance each year is achieved.

New Expenditure

- Whole of Life costs must be identified for all New Expenditure.

- Approved Asset Management plans will be funded where possible, within the parameters established in the Guiding Principles.

- Priority will be given to Asset Management plans that have demonstrated that replacement expenditure is based on economic life modelling, and deferral of the replacement would reduce the operating surplus ratio.

- Asset Sustainability Ratio will aim to achieve a target of between 90% and 110% based on a five year average.

- City assets that are not required for operational or community use are to be rationalised.

Process

- Estimates are to be conservative based on best available information.

- ~~Annual Process –~~ The ~~20 Year Strategic Financial Plan~~ SFP will be prepared and reviewed during the first quarter of each financial year by the Administration for submission to the Strategic Financial Management Committee in the second quarter for consideration. This will enable the *~~20 Year Strategic Financial Plan~~* SFP to be used as an enabler to the Budget setting process for the following year.

- The annual Budget process will consider the impacts on the long term plan, including the Guiding Principles and the ratio targets. Additionally, the Midyear Budget process will also consider the impacts on the SFP.

- The ~~plan~~SFP will project ~~two~~three scenarios:
  - Scenario 1 (Baseline) - ~~the first~~ based on the business as it currently stands, including agreed commitments to future projects.
  - Scenario 2 (Maximum) - ~~and the second after~~ incorporating all ~~envisaged projects~~new expenditure as proposed. ~~and programs in the future.~~
  - Scenario 3 – (Balanced) – a balanced budget that achieves the targets and is in accordance with the Guiding Principles (e.g. Operating Surplus Ratio target). This scenario will seek to include all new expenditure where possible, whilst ensuring the City complies with all other guiding principles. The City will prepare a sensitivity analysis of potential cost reduction opportunities and will use appropriate discretion to prioritise new expenditure.

Attachment 2

20 Year Strategic Financial Plan - *Guiding Principles*

The Guiding Principles set out the foundation on which the 20 Year Strategic Financial Plan (SFP) has been developed and which will also apply to its ongoing review and use.

The Guiding Principles are founded on the City's Governance Framework.

The Framework consists of four (4) key principles required to achieve excellence in governance:

- Culture and Vision.
- Roles and Relationships.
- Decision-making and Management.
- Accountability.

Decision-Making and Management is the key driver of the Guiding Principles.

The Guiding Principles are presented in two parts, one part represents Basic Principles that are prudently used in the development of a financial plan and the other represents Key Elements/Assumptions as considered in the development of the SFP.

Basic Principles:

- **Sustainability:**

  The SFP will be developed on a principle of financial sustainability. The SFP must provide for and ensure the protection of the City's financial capacity and viability into the future and mitigate risks to the City's and the community's assets.

- **Transparency:**

  The SFP will be transparent and include disclosure, clarity and access to information related to the plan and the underlying assumptions contained therein.

- **Prudence:**

  The City will base the SFP on the exercise of sound financial judgement based on facts as known at the time and will apply reasonable tests to the assumptions deployed in the SFP's estimations to confirm their validity. Prudence will encompass anticipating and planning for change.

- **Consistency:**

  The City will apply discipline and adhere to agreed principles in the development and use of the SFP to avoid fluctuating impacts and compromises to the validity of the projections.

- **Performance and Accountability:**

  The SFP is a key element of the City's Planning Framework and will be used as the foundation for the preparation of the Annual Budget. The City will review the SFP at least annually to assess it against the adopted budget and to review the forward projections.

- **Flexible Long Term Approach**

  Where there are years where the City is unable to achieve the overall objective of a nil closing Municipal cash balance, then revenue streams that were otherwise intended to be placed in reserve (such as Tamala Park land sales), may be used in the short-term to achieve a balanced budget. The Municipal fund will pay back to the reserve fund at the earliest opportunity to ensure that the original purpose of the proceeds and reserve funds are maintained.

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<u>Key Elements/Assumptions:</u>

<u>Targets/Ratios</u>

- The City reports against eight ratios, seven are Department of Local Government (DLG) ratios. Whilst recognising that all seven DLG ratios are important, the City's long term plan will focus primarily on:
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<u>Funding/Treasury/Reserves</u>

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Process

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- The annual Budget process will consider the impacts on the long term plan, including the Guiding Principles and the ratio targets. Additionally, the Midyear Budget process will also consider the impacts on the SFP.

- The SFP will project three scenarios:
  - Scenario 1 (Baseline) - based on the business as it currently stands, including agreed commitments to future projects.
  - Scenario 2 (Maximum) - incorporating all new expenditure as proposed.

- Scenario 3 – (Balanced) – a balanced budget that achieves the targets and is in accordance with the Guiding Principles (e.g. Operating Surplus Ratio target). This scenario will seek to include all new expenditure where possible, whilst ensuring the City complies with all other guiding principles. The City will prepare a sensitivity analysis of potential cost reduction opportunities and will use appropriate discretion to prioritise new expenditure.