Appendices

Appendix 1
20 Year Strategic Financial Plan – Guiding Principles 2019

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:

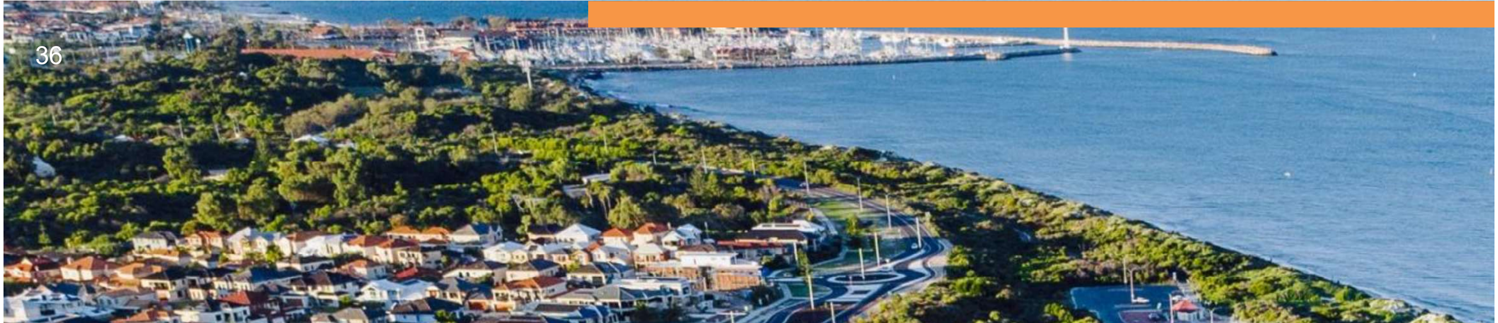
The SFP is a key element of the City's Planning Framework and will be used as the foundation for the preparation of the Annual Budget. The City will review the SFP at least annually to assess it against the adopted budget and to review the forward projections.

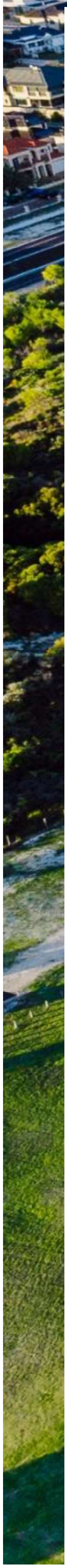
Flexible Long Term Approach:

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.

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 is required to report seven ratios within the statutory annual accounts. Whilst recognising that all seven ratios are important, the City's long term plan will focus primarily on three key ratios:

- Asset Sustainability % (Asset Management).
- Debt Service Coverage Ratio % (Treasury Management).
- Operating Surplus Ratio % (Operating Results).

Asset Management and Asset Sustainability Ratio

- Long-Term Asset Renewal Projections (i.e. up to 100 years) will be updated annually to identify large changes in renewal expenditure. The projections will be used to inform the SFP and where affordable to do so the SFP will set aside funds into the Asset Renewal Reserve to assist with future renewals and avoid unsustainable rate increases in future years.
- Priority will be given to Asset Management plans that have demonstrated that replacement expenditure is based on economic life modeling, 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%. However where the age of assets is young then it be unnecessary to achieve this ratio as the City would not replace assets before their due replacement date.

Treasury Management and Debt Service Coverage Ratio

- The City is an asset intensive business, and as such loan funding could be expected to be used to fund Capital Expenditure. The Borrowings should be consistent with the City's Strategic Positioning Statement on Sustainable Borrowings.
- The primary measure of evaluation is the Debt Service Coverage Ratio which is not to exceed five consecutive years with an annual debt service cover ratio of between three and five, with all other periods exceeding a ratio of five.
- Revenue from the Tamala Park land sale should be applied in accordance with the City's adopted Strategic Position Statement.
- Surplus municipal funds will be transferred to the Strategic Management Reserve where necessary to fund future major projects, and additional surplus municipal funds may be transferred to the Asset Renewal Reserve.
- A balanced cash budget must be achieved in every year of the plan

Operating Results and Operating Surplus Ratio

- The operating results are the most important indicator of long-term financial sustainability.
- The City will strive to generate an annual operating surplus by planning for more operating income than operating expenses.
- The projected operating results will be based on:
    - federal\state economic indicators and local economic conditions
    - projected annual operational costs to provide for services as determined by Council, or changes thereof
    - projected capital renewal expenditure for existing infrastructure and funding required for the Asset Renewal Reserve
    - additional operating costs for new capital expenditure that become operational
    - changes to fees
    - rate increases that keep pace with increases in expenses where necessary, and help the City achieve it's desired target for Operating Surplus Ratio
- The SFP will aim to achieve an Operating Surplus Ratio of 2%, although this may vary in some years due to volatility of any of the key assumptions above.

New Expenditure

Adoption of the 20 Year SFP does not constitute a commitment or agreement to any of the projects or proposals that have not already been approved, but there are key elements for new expenditure to be considered:

- Whole of Life Costs must be identified for all new expenditure, unless the project is at an early stage and there is insufficient data/scope to estimate the whole of life impacts.
- Major Projects should include potential impairment costs if existing assets will be disposed of before they have reached the end of their estimated useful life.
- Major Projects should explore commercial opportunities and where possible strive to achieve a positive, or no worse than break-even, operating position. Availability of grant funding should not be a determining factor for projects, the key financial criteria is the operating results after depreciation and interest. Social and Economic Return on Investment may be estimated for some projects and may be used to justify proceeding even though the project has a negative operating result.
- 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.
- The SFP will be prepared and reviewed during the Annual Budget Process, which will enable the SFP to be used as an enabler to the Annual Budget 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.
- In preparing the SFP, options and risk analysis will be prepared and presented to the Major Projects and Finance Committee for consideration and recommendation to Council.