

BACKGROUND

This policy has been developed to provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources.

OBJECTIVE

The main objectives of this Policy are to:

- 1 Assist Council to use ratepayers' money, together with other funding available, wisely to provide prioritised services and ensure financial sustainability and asset management.
- 2 Provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources.
- 3 Guide Council in the management of the ten-year financial plan and determine financial boundaries for delivery of operational and capital plans.

POLICY STATEMENT

Introduction

Wollongong City 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 and the community have created a stable and sustainable financial environment that should allow Council to provide its existing levels of service without significant change to future income requirements. In the future, Wollongong City 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 include:

- 1 Better understanding the community's needs, wants, desires and priorities for services and service levels and matching that to the organisation's and community's capacity to sustainably fund the provision of agreed services.
- 2 Providing capacity to meet contemporary and increasing expectations from all areas including community, service users 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 Financial risk associated with significant growth and development of new infrastructure and services in the West Dapto area.
- 6 Managing any future demands associated with climate change.

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

1 STABILITY

1.1 Available Funds

- a Council will aim to maintain Available Funds (the unallocated portion of revenues) between 3.5% and 5.5% of the current operational revenue [pre capital].

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 capability to take advantage of opportunities that may arise.

Where the Available Fund balance falls below the targeted level in a period, the onus through planning is to ensure adequate adjustment is made to restore the balance through future programs, within an acceptable timeframe.

1.2 Operational Result [pre capital]

- a Council will plan to maintain a small operational surplus [pre capital] (average over three years).

The operating result [pre capital] is considered to be an indicator 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. This indicator includes accounting and engineering estimates relating to the consumption of long-lived assets (depreciation) that are used in determining this result. Council has improved, and will continue to refine, its estimating process to provide greater accuracy of the result. Council will plan based on the best information available.

- b Council will plan for a Funds Available from Operations at least equal to Depreciation.

Funds Available from Operations is a Wollongong City 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 intent is to provide at least sufficient funds from operations for the capital budget to replace assets as they fall due. The depreciation target is currently used as a proxy for the long-term annual funding requirement to replace Council's assets at their gross replacement value.

This target does not allow for new assets or the enhancement of assets being replaced. Nor does the target assist in managing the actual timing of replacement based on renewal schedules that may vary significantly from year to year. The delivery planning process will include consideration of enhanced services requiring additional assets and planning for any financing and/or restricted funds movements to manage timing issues.

2 AFFORDABILITY

2.1 Total Funds Result

- a** Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows. Where Available Funds level are above minimum requirements, additional funds will be transferred to the Strategic Projects Restricted Asset and consideration given to the allocation of funds through the Strategic Planning process.

Short term stability requires the annual budget be 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. The total funds result is inclusive of financing cash flow and movements in Restricted Assets.

2.2 Capital Expenditure

- a** Funding for the renewal of assets will be applied to asset replacement.
- b** In determining the approval of budget for additional or enhanced assets Council will ensure that the whole of life cost is considered and are able to be sustainably accommodated within future forecasts.

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.

2.3 Investment of Surplus Cash

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

Investments are surplus funds at a point in time, either earned from prior operations or available due to timing between income and expenditure (incl restricted assets). Interest on Investment of surplus funds provides additional resource to Council and assists in maintaining the real value of restricted funds held. Council, in its Investment Policy, carefully weighs up its stewardship role and prudent investment risk to optimise returns. Events in past years have highlighted the need to remain vigilant in securing public monies and making appropriate risk reward decisions.

- b** Returns on externally and agreed internally restricted cash will be transferred to restricted assets and treated as capital revenue where required.
- c** A baseline return on investments will be included in the Long Term Financial Plan. Additional returns above the baseline will be treated as short term capacity within the Strategic Planning process and be allocated on a non-recurrent basis.

Returns from investments vary significantly 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.

2.4 Borrowing

- a** Council will actively consider borrowings through its Resource Strategy and Capital Budget as a source to finance timing mismatches between cash availability and expenditure requirements and to provide for intergenerational equity where determined applicable.
- b** Borrowings will be considered for investment in assets acquired to provide additional service and service level or to provide for timing mismatches in asset renewal funding.
- c** Internal borrowing will be applied first where funds are available, and it is determined to be more economical.
- d** Interest on internal borrowings will be costed to Income Activity Services to reflect the opportunity cost and will be applied in business cases to reflect the actual return on investment.
- e** Borrowing terms will preferably be structured to match, but not exceed, asset life where there is appropriate product in the market to do so.

This Strategy focuses on ensuring that Council continually sets a financial plan that ensures financial sustainability. Consideration of the Council services and the resources, including assets, required to provide those services must be affordable, that is, they must be within existing capacity, funded by increased capacity through efficiencies or based on a willingness of the community to provide additional revenue to fund increased service. Borrowings do not generate income and don't allow Council to acquire things we couldn't otherwise afford. They do provide for timing mismatches between cash and expenditure with an interest cost and they do allow Council to provide assets for future community use without impacting on past or present communities (Intergenerational Equity). They also allow for investment in assets that provide future positive returns.

Consideration of borrowings will be based on the needs or community demand for services and the projected capacity to pay for those services, or the willingness to raise additional revenue for them. Actual borrowings will be based on liquidity requirements and not specific assets or investments.

2.5 Rates, Fees & Charges

- a** Council will review and maintain its rate base to ensure long term financial viability.
- b** Business rating structures and differential pricing between categories will be considered as part of the Annual Revenue Policy development.
- c** Council's pricing methodology will be applied consistently for all fees and charges. Fees & Charges will be reviewed on a cyclical basis to ensure compliance.

Council's revenue strategies will be considered as part of the long-term financial planning in accordance with this Strategy. General rates increases are determined through IPART's 'rate pegging' process and approved by the Minister for Local Government. The rate peg has generally been in line with increases in costs to local government. 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.

2.6 West Dapto

- a Increased annual rates, fees & charges created from subdivision in West Dapto will be applied to meet West Dapto operational costs and the net Funds Available from Operations and funding for Depreciation in the area will be restricted.
- b In the transition to full development of the area, the West Dapto restricted asset will be made available to meet infrastructure and planning requirements in the area.

West Dapto is the last significant 'green fields' development in Wollongong. It will have significant financial impacts over time. It is anticipated that there will be substantial developer contributions and capital expenditure. The management of the Development Contributions Plan has inherent risks due to estimating, scoping, and timing variables. Rates and other revenues will usually precede operational demand and assets built will require little renewal or maintenance for seven to 15 years creating a perception of improved financial performance. Experience in developing councils has shown the negative long-term impacts that the delayed expense pattern has if additional rate revenue is built into other recurrent operations.

It is considered important that this longer term view of additional revenue is given and appropriate long-term provisions are made from the commencement of the development.

3 FOCUSED DELIVERY

3.1 Operational Services

- a 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 Wollongong 2022 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 agreed community expectations.

3.2 Capital Delivery

- a Council will achieve 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.

3.3 Grant Funding and other Capital Contributions

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

Priority for grants should be directed to actions and projects that are included in Council's Community Strategic Plan, Delivery Plan, Operational Plan or supporting documents. Continued effort in obtaining and improving Council's success in targeted grant funding is vital to future enhancement and progression of objectives.

4 EFFICIENCY - VALUE FOR MONEY

4.1 Service Reviews

- a** 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. During each review of service, the service budget will be zero based in line with the agreed service levels.

Council will deliver procurement savings through improved strategic procurement and collaboration with other authorities and agencies.

APPROVAL AND REVIEW		
Responsible Division	Finance	
Date/s adopted	<i>EMC</i> 25 March 2021	<i>Council</i> 28 June 2021
Date/s of previous adoptions	3 April 2017; 17 February 2014; 23 April 2012; 23 June 2009	
Date of next review	28 June 2023	