Financial Sustainability Policy

NOTE: Council regularly reviews and updates its policies. The latest controlled version can be obtained from the Policy Register on Council's intranet or by contacting Council's Corporate, Governance & Strategy Branch. **A hard copy of this electronic document is considered uncontrolled when printed**.

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1. POLICY STATEMENT

South Burnett Regional Council ('Council') has a responsibility to ensure that it has sufficient resources now and into the future to provide levels of service that are both affordable and at a level considered appropriate by the community. This responsibility encompasses how decisions are made regarding the allocation of ratepayer funds to the day-to-day operations of Council as well as towards the replacement of existing assets and procurement of new assets.

2. SCOPE

This policy applies to Councillors and the Senior Leadership Team ('SLT') of Council.

The key measurement criteria for whether Council is achieving its financial sustainability objectives over the short and medium term are the three (3) financial sustainability ratios required to be published pursuant to *Section 169(5)* of the *Local Government Regulation 2012* ('Regulation') legislation, currently are the:

- asset sustainability ratio;
- net financial liabilities ratio; and
- operating surplus ratio.

3. GENERAL INFORMATION

Council's current and expected financial sustainability performance will be measured and reported against the benchmarks set by the State Government, as well as by ongoing periodic sustainability assessments undertaken by the Queensland Treasury Corporation ('QTC').

Responsible ongoing financial management by Council will achieve the following objectives:

- Council operates in an efficient and effective manner, minimising general rate increases;
- full cost pricing compliance for Council business activities;
- ongoing operating surpluses to ensure Council's equity is not degraded and future financial risk can be adequately mitigated;
- appropriate collection and retention of cash funds for ongoing infrastructure and asset replacement and renewal (including future climate change mitigation measures);
- future trunk infrastructure financial obligations can be met;
- the implementation of adopted strategies and plans to achieve goals outlined in Council's Corporate Plan 2021-2026;

- informed decisions are made on discretionary new operating or capital investment proposals (i.e., business cases including whole of life cost analysis);
- infrastructure and assets are maintained to required service levels;
- debt levels will be minimised and returns on cash holdings maximised; and
- achieving all the minimum financial sustainability benchmarks set by legislation.

3.1. Principles

The local government principles that underpin this policy are:

- transparent and effective processes, and decision-making in the public interest; and
- sustainable development and management of assets and infrastructure, and delivery of effective services; and
- democratic representation, social inclusion and meaningful community engagement; and
- good governance of, and by, local government; and
- ethical and legal behaviour of Councillors, local government employees and Councillor advisors.

Furthermore, additional principles that underpin this policy are:

- Public Interest - The use of public monies in the public interest by responsible budgeting and accounting;
- Fair and Reasonable - Fair and reasonable allocation of Council resources in the form of allowances, facilities and other benefits, to enable all Councillors to conduct the duties of their office; and
- Accountability - Accountability for expenditure and use of facilities through full justification and acquittal.

3.2. Operating Surplus

Council will aspire that it maintains an operating surplus over the five (5) year rolling average, taking into account external funding sources. An operating surplus is achieved when operating revenues are greater than operating expenses (including depreciation and interest on debt). The operating surplus ratio is one (1) of the three (3) key measures of financial sustainability required pursuant to *Section 169(5)* of the Regulation. It calculates the operating surplus (or deficit) as a percentage of Council operating revenue. The target operating surplus ratio set by the state government is between 0% and 10%.

Council will target to achieve an operating surplus commensurate with mitigating known risks with respect to appropriately funding future trunk infrastructure requirements, whilst also ensuring that the operating surplus ratio is contained within the required benchmarks.

3.3. Liquidity Management

The cash expense cover ratio is a key indicator utilised to measure Council liquidity (i.e., current financial health) and to assess ongoing financial sustainability risk. This ratio calculates how long Council can continue paying its day-to-day expenses from cash at bank without needing additional cash flow injections.

Council will target achieving a minimum cash expense cover of three (3) months operating expenditure held as restricted cash in any given financial year. The cash expense cover ratio will be reported to Council monthly.

3.4. Expenditure Management

Council will ensure that expenditure on goods and services to meet established service levels will be undertaken efficiently and effectively.

This will be achieved via the development of the annual operating expenditure budget from a zero base, ensuring staff compliance with Council's policies and procedures as well as partnering with key stakeholders such as Local Buy to ensure efficient cost procurement options are implemented.

Expenditure management outcomes will be measured by how Council performs annually against its operating and capital expenditure budget allocations.

3.5. Physical and Natural Asset Management

Council will ensure that it maintains its physical and natural assets on an ongoing basis at defined levels to ensure that services are able to be provided effectively to the community.

The asset sustainability ratio is one of the three (3) key measures of financial sustainability required under legislation. This ratio is calculated by measuring the annual expenditure on the renewal and rehabilitation of Council's assets against the annual depreciation charge. It is a measure of whether Council is reinvesting appropriately in existing infrastructure assets.

Council will target over the life of the 10 year financial plan to achieve a minimum asset sustainability ratio of 90% (including plant, fleet and office equipment renewals) consistent with the benchmark unless condition-based renewal forecasts demonstrate a percentage lower than 90% in any given year. Investment in natural assets will be prioritised according to biodiversity value and ecosystem service benefits realised for the community.

Established management plans for Council's asset and infrastructure classes will incorporate annual maintenance financial estimates as well as 10 year renewal / replacement forecasts developed from regular asset condition assessments. Asset management plan financial forecasts will be incorporated into Council's 10 year financial plan and annual budget to ensure financial sustainability implications are appropriately considered.

Annual depreciation forecasts will be developed on an asset basis, utilising methodology endorsed by the Queensland Audit Office ('QAO'), with assets regularly revalued in accordance with legislative requirements.

The QTC project decision framework will be utilised for business case analysis for all new and replacement capital projects in accordance with policy. The outcomes from the analysis will be used to inform Council of whole of life costing implications associated with each project.

3.6. Debt Management

New debt will only be incurred as part of Council's strategic approach to:

- liquidity management that considers the minimisation where possible of surplus cash holdings; and
- intergenerational equity requirements.

The net financial liabilities ratio is one of the three (3) key measures of financial sustainability required under legislation. The net financial liabilities ratio represents Council's net financial liabilities (total liabilities fewer current assets) expressed as a percentage of total operating revenue. A negative percentage indicates that current assets exceed total liabilities. The target net financial liabilities ratio set by the state government is less than 60%.

Council will adopt a conservative approach to new debt to ensure that the net financial liabilities ratio is below the target over the life of the ten (10) year financial plan. New debt that may be required to assist with the funding of trunk infrastructure to cater for population growth will be considered on a case-by-case basis.

3.7. Full Cost Pricing

Council will ensure that competitive neutrality and full cost pricing outcomes required pursuant to *Section 44* of the *Local Government Act 2009* with respect to its business activities are complied with on an annual basis.

3.8. Commercial Opportunities

Commercial opportunities will only be considered if they provide value for money to the community and have a positive net impact on overall general rate funding requirements of Council.

The QTC project decision framework will be utilised for business case analysis for all new identified commercial opportunities. The outcomes from the analysis will be used to inform Council of whole of life costing implications associated with each commercial proposal.

3.9. Climate Risk and Climate Adaption

Council recognises that mitigation measures to address extreme weather events may have financial sustainability implications from the climate. Ongoing infrastructure and operating funding will be considered as part of long-term planning and addressed via inclusion in the 10 year financial plan and discussed annually through the budget process (where identified).

Council will also ensure that operational and strategic decisions made today with associated climate change implications will consider minimising the exposure of future Councils to potential financial risk.

3.10. Responsibility

The Chief Executive Officer is responsible for the delivery of the annual budget.

4. DEFINITIONS

Council means South Burnett Regional Council.

Councillor means Councillor, of a local government, includes the Mayor.

QTC means Queensland Treasury Corporation.

5. LEGISLATIVE REFERENCE

Local Government Act 2009 (Qld)

Local Government Regulation 2012 (Qld)

6. RELATED DOCUMENTS

South Burnett Regional Council Corporate Plan 2021-2026

7. NEXT REVIEW

As prescribed by legislation or January 2025

8. VERSION CONTROL

Version	Revision Description	Adopted Date	ECM Reference
1	Development of policy	25 January 2023	2968296

Mark Pitt PSM
CHIEF EXECUTIVE OFFICER

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