Policy

STRATEGIC

FINANCIAL SUSTAINABILITY

Head of Power

Local Government Act 2009 and *Local Government Regulation 2012*

Key Supporting Council Document

Lockyer Valley Regional Council Corporate Plan 2022-2027:
Lockyer Leadership and Council –

Undertake robust and accountable financial, resource and infrastructure planning and management to ensure affordable and sustainable outcomes for our community.

Definitions

N/A

Policy Objective

This policy outlines Lockyer Valley Regional Council's commitment to the responsible management of Council's financial resources now and into the future.

Policy Statement

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 property owner funds to Council's day to day operations as well as towards the replacement of existing assets and the procurement of new assets.

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

- Council operates in an efficient and effective manner, minimising general rate increases
- Ongoing operating surpluses to ensure Council's equity is not degraded and future financial risk can be adequately mitigated
- Appropriate collection of cash funds for ongoing infrastructure and asset replacement and renewal
- 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 are minimised and returns on cash holdings maximised
- Achievement of the financial sustainability benchmarks set by legislation

The key measurement criteria for whether Council is achieving its financial sustainability objectives over the short and medium term are the three financial sustainability ratios required to be published under legislation, namely the:

- Operating surplus ratio
- Net financial liabilities ratio; and
- Asset sustainability ratio

In addition to the above statutory ratios, Council will use the cash coverage ratio to maintain adequate cash for general operations. The cash coverage ratio measures the number of months of operations supported by the cash balance. The target benchmark is three months.

Council's current and expected financial sustainability performance will be measured and reported against the benchmarks for these ratios set by the state government and recommended by the Queensland Treasury Corporation (QTC).

Operating Surplus Ratio

Council will ensure that it maintains an operating surplus within the required benchmarks each year over the life of the ten-year financial plan. 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 of the three key measures of financial sustainability required under legislation. 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 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 within the guiding parameters contained within the Long-Term Financial Plan and the service delivery objectives outlined by the Mayor and Councillors. Expenditure management outcomes will be measured by how Council performs annually against its operating and capital expenditure budget allocations.

Net Financial Liabilities Ratio and Debt Management

New debt will only be incurred for specific capital projects where other funding sources have been exhausted, and where debt will be utilised for intergenerational equity purposes.

The net financial liabilities ratio is one of the three key measures of financial sustainability required under legislation. The net financial liabilities ratio represents Council's net financial liabilities (total liabilities less 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-year financial plan. New debt that may be required to assist with the funding of infrastructure to cater for population growth will be considered on a case-by-case basis.

Asset Sustainability Ratio and Asset Management

Council will ensure that it maintains its infrastructure and 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 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 ten-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.

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

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

Financial analysis for all new and replacement capital projects will be used to inform Council of whole of life costing implications associated with each project.

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.

Related Documents

Lockyer Valley Regional Council – *2023/2024 Budget and Long-Term Financial Forecast*
Lockyer Valley Regional Council – *Long Term Financial Plan*
Lockyer Valley Regional Council – *Asset Management Policy*
Lockyer Valley Regional Council – *Asset Management Plans (per asset class)*