Livingstone Shire Council

Financial Guiding Principles

Introduction

The *Financial Guiding Principles* are a 'decision-making' document that will direct Council in maintaining a strong and consistent legacy of financial management and investment over the long term. The principles provide an agreed framework to support Council in forecasting budgets and developing financial plans that, in turn, will achieve the vision of Council's overarching strategic vision.

Related Strategies and Plans

- Livingstone Community Plan : Towards 2050
- Corporate Plan 2030
- Annual Operational Plan
- Service delivery plans
- Long term financial plans
- Asset management plans

While the needs and aspirations of the local community evolve and adapt over time, aligning council's decisions against a set of agreed guiding principles provides consistency and context to effectively manage the allocation of Council's financial resources.

Financial principles are also a useful tool for the community to better understand the process and priorities that sit behind budgets and long term financial plans. With 80% of Council revenue drawn from rates revenue, the community has a vested interest in engaging with the setting of annual budgets through the process of public consultation.

In turn, it is Council's responsibility to assess the impact of rates and policies on ratepayers in a responsive and responsible manner so that annual budgets and long term financial plans are delivered wisely and within Council's means.

How can the community benefit from these principles?

The *Financial Guiding Principles* are designed to enhance a sustainable quality of life for the community in the following ways:

- Long term financial sustainability driving by strategic financial plans
- Responsible debt management
- Improved infrastructure
- A level of service and services to the community that meets expectations
- A better understanding of the community's needs, wants, desires and prioritises for services and service levels and matching that to the organisation's capacity to sustainably fund the provision of agreed services
- Greater capacity to meet existing and increasing expectations from all areas including community, service users and government
- Ensuring future decisions provide affordable long term solutions that are within the financial capacity of the community
- Delivering organisational change to improve efficiency and quality of service to the community
- Managing future demands and impacts that are associated with climate change.

What do the principles do?

They provide direction and context for decision making that guides the allocation, management and use of its financial resources.

They ensure Council remains financially sustainable while giving focus to financing key priorities through strong financial management.

They service as the catalyst for improving efficiency, continuous improvement initiatives and releasing resources to improve frontline services to deliver and meet community expectations.

How do the guiding principles work?

The Financial guiding principles set out clearly defined parameters within which Council agrees to operate in order to maintain accepted financial outcomes. Accepted financial priorities are defined as measures that enable:

- Stability
- Affordability
- Efficiency (i.e. value for money).

Challenges and Opportunities: Futureproofing the Community

Livingstone Shire Council will face new challenges, as well as new opportunities, which call for consistent financial decision and innovative and community centred solutions.

Some of the key challenges include:

1. Addressing council's medium to long term funding of renewal and maintenance of assets used to deliver our services;
2. Meeting expectations from all areas including community, service users and government, by ensuring standards across key services keep pace with demand and in balance with the capacity to fund these operations;
3. Financial risk associated with growth and development of new infrastructure services;
4. Demands associated with the management of climate change;
5. Increasing costs and scarcity of some key supplies such as recyclables, energy, bitumen, concrete and labour;
6. Addressing additional expectations and demands from government authorities;
7. Estimated decrease in the Financial Assistance Grant allocation; and
8. Living with the prevalence of COVID-19 within the community, managing the impact on Council services and its workforce.

The *Financial Guiding Principles* represents a comprehensive approach to integrate the various strategies (financial and other) of Council. The development of the long-term financial projections represents the outputs of several strategy areas, that when combined, produce the financial direction of Council as illustrated below:

Financial Guiding Principles: In Detail

Objectives

1. Provide direction and context for decision making in the allocation, management and use of Livingstone Shire Council's financial resources.
2. Guide Council in the development of its long term financial forecast and determine financial boundaries for delivery of operational and capital plans.
3. Assist Council to wisely use ratepayers money, together with other funding available, to provide prioritised services and improve financial sustainability and asset management.

Principles

PRINCIPLE 1

The community's finances will be managed responsibly to enhance the wellbeing of residents.

Council will ensure it only raises the revenue it needs and does so in the most efficient and equitable manner possible. Council will manage community funds according to best practice standards and ensure information regarding its financial management decisions are accessible to the community.

Council commits to ensuring that financial and other resources under Council's control will be used only for approved purposes and within Council's strategic framework, and that all risks to Council's finances are properly managed.

Council will be honest and accountable in all aspects of the budget process, meeting the community's expectations of transparency and openness with a reporting framework that supports and enhances this. Councillors all own and are accountable for the budget and its implementation.

All budget figures will be realistic and based on the best available information at the time of budget preparation. Material variances will be reported to Council and the Community as they are discovered, to enable Council to amend the budget and/or service delivery accordingly.

Regular updates are provided to Councillors in relation to major Capital Projects that are experiencing pressure to stay within budget or remain on schedule.

Regular budget reviews are to be presented to Council for review and consideration.

PRINCIPLE 2

Council will maintain community wealth to ensure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation.

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost of the services it consumes).

Council will invest sustainably in community assets to maintain (and potentially enhance) service levels.

Council will maintain a strategic approach to the delivery of all Council services and capital works programmes. Council will align Council's budget with the *Livingstone Community Plan: Towards 2050* themes, goals and strategies.

PRINCIPLE 3

Council's financial position will be robust enough to recover from unanticipated events, absorb the volatility inherent in revenues and expenses.

Council will ensure it accumulates and maintains sufficient financial resource and has the borrowing capacity to deal with volatility and unexpected events. Council's operational budget will be flexible enough to ensure that volatility in revenues and expenses as result of the changing economic environment can be absorbed.

PRINCIPLE 4

Resources will be allocated to those activities that generate community benefit.

Council will ensure robust and transparent processes are in place for the allocation and prioritisation of resources through budgetary decision-making, as well as choosing the most cost effective methods for delivering specific services and projects.

Council will recognise its service obligations to the Livingstone Shire community in its decision making.

These four principles are underpinned by the following priorities:

- Stability
- Affordability
- Efficiency (i.e. value for money)

Priority 1: Stability

Maintaining Financial Sustainability

Council will proactively continue to seek opportunities to collaborate with other Councils to remain viable, competitive and independent. Council will be financially sustainable by generating sufficient revenues to perform its fundamental function and deliver core services up to an acceptable level.

To ensure that Council continues along the path of future financial sustainability, key long term strategic plans are developed and integrated; demonstrating a strategy to manage financial implications of its long-term planning. Council will plan to maintain an operational surplus

The *Local Government Regulation 2012* requires Council to use three specific indicators:

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

These indicators are to be included in the following:

- Long term financial forecast;
- Annual budget;
- Budget reviews; and
- Report on annual financial results.

The use of these financial indicators and associated targets, on average over the long term, have been determined by Council as the following:

Ratio	Target
Operating Surplus Ratio	0-10%
Net Financial Liability Ratio	0-60%
Asset Sustainability Ratio	90-110&

OPERATING SURPLUS RATIO

The operating result (pre capital) is considered to be one of the main indicators 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. The indicator includes accounting and engineering estimates relating to the consumption of long lived assets (depreciation) which is used in determining this result.

A positive ratio (above 0%) indicates that operating revenue exceeds operating expenses and this facilities utilising operating surpluses in assisting to fund capital expenditure. This places less reliance on borrowing money to fund capital expenditure and thus reduces Council debt.

The positive operating surplus ratio for the entire ten-year forecast period is a strong indicator of long-term sustainability.

NET FINANCIAL LIABILITIES

The net financial liabilities ratio is a measure of the significance of the net amount owed at the end of a financial year compared with operating revenue for the year. It is a measure of indebtedness of a Council as it includes items such as employee long service leave entitlements and other amounts payable as well as taking account of the level of Council's cash and investments.

ASSET SUSTAINABILITY RATIO

Capital expenditure can be broadly classified as new (building something entire new) or renewal (replacing an old asset with a new one). This ratio measures how much capital expenditure goes towards replacing existing assets each year when divided by depreciation expense.

[1]The Queensland Government is currently reviewing the sustainability framework in order to provide both councils and the State with greater insights into the challenges faced by the sector.

Debt

Councils do not retire, die or have descendants. They are entities that continue in perpetuity and have an income guaranteed by legislation. Therefore community debt needs to be considered in a different light to that of household or business debt. There is not pressing need to repay debt rapidly, rather, that debt should be maintained at serviceable levels.

Council will only use debt to fund capital expenditure. Council will consider borrowings as a last resort for funding, and only as a tool to be used in a strategic perspective to achieve the provision of services to the community.

Council will commit to funding all capital renewal projects from operating cash flows and borrow only for new or upgrade capital projects, having regard to sound financial management principles and giving consideration to inter-generational equity for the funding of long-term infrastructure projects.

Borrowing for infrastructure that provides a return on assets will generally take priority over borrowing for other assets.

Prior to undertaking any borrowing, Council shall assess its capacity to repay the loan, and to ensure that the community is not burdened with unnecessary risk and rate/charge increases.
All borrowings will be considered in line with Council's Long-Term Financial Plan.

LONG TERM LIABILITIES

Each budget will be fully funded, reconciled and prepared on an accrual basis. Adequate provisions will be made to reflect Council's long-term liabilities and to ensure appropriate funding is in place for infrastructure renewal as it falls due.

Council will ensure that the internal capital reserves and provisions will be fully funded by cash within the forecast period.

ASSET MANAGEMENT

The key objective of Council's asset management is to maintain Councils existing assets at desired condition levels. If funding is not sufficiently allocated to asset renewal, then Council's investment in those assets will reduce along with the capacity to deliver services to the community.

Council's *Strategic Asset Management Plan* outlines Council's approach to improve the way it delivers services from its infrastructure and describes how its asset portfolio will meet service delivery needs into the future. The strategy shows how Council's asset management policies will be achieved and integrated into Council's long term strategic plan.

Council's *Asset Management Policy* ensures that adequate provision is made for the long-term replacement of major assets by:

- Taking a strategic, lifecycle approach using risk management based approach while delivering services at the adopted level;
- Developing and maintaining asset management plans to inform Council's long term financial plan;
- Preparing businesses cases for proposed future funding requirements prior to the introduction of new assets or services ensuring whole of life costs of the assets or services are fully understood;
- Integrating asset management activities with applicable council management systems;
- Monitoring asset performance and maintaining quality asset data in accordance with corporate asset data requirements;
- Ensuring investment decisions are based on optimised levels of service that address the needs of the community in a financially sustainable manner;
- Monitoring, reviewing and reporting on the performance of the asset management system to ensure alignment with industry standards and best practice; and
- Providing resources and training in asset and financial management principles, practices and processes to enable delivery of the asset management system.

All programmes will be regularly reviewed to ensure they fit within the Council's financial framework. Consideration is given to the relevance of Council's financial sustainability ratios given predicted growth and the relative newness of Council's asset base. Council's asset sustainability will focus on ensuring renewals identified as part of Asset Management Plans are included in the capital program

Priority 2: Affordability

Available Funds

Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows. Where available fund levels are above minimum requirements, consideration will be given to the allocation of funds to deferred asset renewals or investments that reduce future operational costs. Short term stability requires the annual budget is affordable and cash managed to ensure that payments can be made as required.

The operational budget will be structured such that there is no reliance on asset sales to fund core services, and net proceeds from asset sales are transferred to reserves for strategic capital purposes .

Capital Expenditure

All projects will be managed in accordance with the Project Management Framework. This framework assists in preparing evaluations concerning the acquisition, maintenance, or improvement of significant assets. This requirement results in the appropriate due diligence over costs and assessment of alternatives.

The full life cost of capital expenditure will be considered before capital projects are approved. Asset renewal, maintenance and operating costs impacting on future budgets will be included in forecasts as part of the asset management budgeting process.

Capital expenditure decisions need to be fully informed by understanding the impacts of future results. Consideration of future operational and maintenance, or new revenue streams must form part of the initial evaluation and approval process and be recognised in future estimates to aid future planning.

The initial evaluation process will utilise a project evaluation criteria in a relative ranking of projects based on a *score x weighting* algorithm. The overall mix of projects is then evaluated relative to key drivers such as Asset Management Plan and Long term financial plan to ensure the balance of projects selected complies with strategic objectives.

The number of projects in Council's portfolio will almost always exceed the capacity to deliver and available budget. The project evaluation criteria aims to provide a process to support decision making for new projects and filters those projects which should be progressed and those that should be abandoned or deferred. Only projects that are able to meet Council's evaluation criteria will progress through to delivery, which is an effective means of applying Council's limited budget to those projects which can demonstrate the most strategic need and highest priority.

Project Evaluation Criteria

Focus Area	Considerations	Scoring (y/n or 1-5)	Weighting
Project Details	Project details provided and project objectives and deliverables clearly identified	Yes/No	Zero but 'No' triggers communication with submitter to review
Strategic Alignment	How well does proposal link to strategic plans and organisational goals. Links to both short/medium plans (AMP, Corporate plan) and aligns closely to aspirational/ long term goals (LGIP, Community Plan) **OR** Links only to aspirational/long term goals (LGIP, Community Plan) **AND** Proposal has been endorsed by Council /ELT decision **OR** Organisational Risk/External legislation/ compliance mandates action	(Max 5) (2-3) (1-2) (1-2) (1-2)	30
Options Analysis	Full consideration of all options/implications (e.g. Do Nothing and Whole of Life costs) has been included **OR** Partial consideration of options has been included. **OR** No effort to evaluate options has been made	(4-5) (2-3) (1)	20
Cost Estimates	**Definitive** - Fully detailed current costings based on drawings (-5 to +10%) **OR** **Budget Estimate** - Detailed estimates with quotes (-10% to +25%) **OR** **Rough Order of Magnitude** - Unit rates based on concept (-25% to +75%)	(4-5) (3-4) (1-2)	25

Project Readiness	Have all stakeholders been identified and engaged? **AND** Is the detailed design ready to start the construction? **AND** Have all the necessary approvals or permits etc. been obtained? **AND** Has Community consultation and/or an Engagement Plan been completed? **AND** Are external funding arrangements in place and satisfactory?	1 point each. (Max 5)	25
Project Governance	Project approved by ELT member Project Manager and Project Sponsor nominated Is the Project Sponsor from service area nominated? Is there a requirement for PCG or steering committee?	Yes /No	Zero but 'No' triggers communication with submitter to review

Project Governance

The Project Management Framework has been written to provide guidance on the common steps that apply in the methodology of Project Management. The aim is to establish a common framework for the management of projects, programs and the portfolio. A level of control and commonality is required for reporting and benchmarking.

Frameworks can vary in detail from organisation to organisation, but critical to the success is the freedom given to the project and senior managers to adapt the phases to suit the size and complexity of the project they are managing.

Rates, Fees and Charges

Council will review and maintain its rate base to ensure long term financial capacity. Rates increases will be set at an "affordable" level having regard to the Corporate Plan and its social, environmental, economic and financial objectives, balanced against the community's ability to pay.

Council's pricing methodology will be applied consistently for all fees and charges. Fees and charges will be reviewed annually to ensure compliance.

Council's revenue strategies will be considered as part of the long term financial planning in accordance with these guidelines. Rate variations will be linked to community aspirations for service, which will be considered in conjunction with other revenue options, continuous improvement initiatives and cost reduction opportunities.

Cash Management

Cash held within Council's bank accounts will be maintained at three (3) months of operating costs plus fully funded reserves within the forecast period.

Council funds that are not immediately required for operational needs and cannot be applied to either reduce existing borrowings or to avoid the raising of new borrowings, will be invested in accordance with Council's *Investment Policy*.

Grant funding and other capital contributions

Council will actively pursue funding and other contributions to assist in the delivery of core services. Operational grants and contributions for specific purposes currently provide for ~6% of Council's revenue.
Continued effort in obtaining and improvement Council's success in targeted grant funding is vital to future performance stability.

Avoid Cost Shifting

Council will resist the transfer of responsible for service provision – or being called upon to provide a service when the state or Australian government withdraws. Cost-shifting undermines the financial sustainability of local government by forcing council to assume responsibility for more infrastructure and services without sufficient corresponding revenue.

Priority 3: Efficiency - Value for Money

Utilisation of council's assets

It is important that Council's assets are used effectively to reduce the rate burden on ratepayers, ensuring the sustainability of non-statutory services that would otherwise be stopped due to lack of funding.

Livingstone Shire Council possesses many valuable assets such as roads, water and waste water, land, parks and facilities. Council will create and facilitate access to diverse sustainable leisure, recreation and sporting facilities and programs that are safe for all people of all ages and abilities. Council will maintain and build for future growth, infrastructure assets that support a thriving community. These assets can generate an opportunity in providing greater access and value to the community.

Service reviews

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 residents. Council will consider new and better ways of going about its business in the achievement of its goals, through innovation; which will be assessed critically by using appropriate risk management and other analysis. It is intended that all services be received on a cyclical basis over a period of time.

Council will continue to review services to deliver for money without compromising community's expectations.

Staffing establishment levels

Workforce planning will be considered during the development of annual budgets and the financial impacts of the workforce plan captured within the *Long term financial forecast.* The combination of workforce and financial constrains will influence the prioritisation of projects within the *long term financial forecast.*

Council will ensure that adequate workforce management and resource strategies are in place to ensure the delivery of objectives, outcomes and strategies of *Livingstone Community Plan: Towards 2050, Livingstone Corporate Plan 2020-2030,* and *Livingstone Planning Scheme 2018.*