

# Tasman Council



## FINANCIAL MANAGEMENT STRATEGY 2022

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## Introduction

A key component of sound financial management is the preparation of longer-term financial strategies, plans and budgets. The development and adherence to longer-term plans is critical to ensure the Council remains financially sustainable. The long-term financial framework exists primarily to provide the following outcomes for Tasman Council:

- Establish a prudent and sound financial framework for the next ten to twenty years to ensure that Council's strategic objectives are achieved;
- To provide an assessment of the financial resources required to accomplish the objectives and strategies included in the Council's Strategic Plan;
- To establish a basis to measure the Council's adherence to its policies and strategies; and
- To assist Council to comply with sound financial management principles as required by the *Local Government Act 1993* and to plan for long-term financial sustainability in the municipal area.

The Financial Management Strategy ("FMS") and Long-Term Financial Management Plan ("LTFMP") are not intended to be static but will be reviewed annually as part of the annual planning process so as to incorporate any future changes in council policy, priorities, new initiatives or strategic direction.

## Financial Management Strategy (FMS)

The FMS is an important part of the overall financial management activities of the Council. The table following demonstrates the context within how this document fits into the overall financial management framework of Council.

IMPACTS	Financial Management Activities	ROLES
<b>Internal</b> Strategic Planning Communications Strategies Other Policy Decisions	Long Term Financial Planning Budgeting Management Reporting Financial Reporting Revenue Collection	<b>Elected Body</b> Set Policy Set & Adopt Annual Budget Corporate Performance Management Delegate Authority Community Consultation Receive/Review Information
<b>External</b> <i>Local Government Act 1993</i> LG Regulations Accounting Standards Community Government Grants Other External Factors	Maintenance of Accounting Records Internal Control Framework Asset Management Planning Cash Management <ul style="list-style-type: none"> <li>• Investment</li> <li>• Manage Debt Portfolio</li> <li>• Cash Flow Budgeting</li> </ul>	<b>Management</b> Implement Council Decisions Advise/Inform Elected Body Set Administrative Policy Prepare Annual Budget Set Standards & Measure

The FMS assists in the development and revision of long-term financial planning and determines financial boundaries for delivery of operational and capital plans. Council has generated a level of operating revenue in recent years that has been sufficient to cover its overall operating expenses whilst investing in several infrastructure projects. The key focus of the FMS is to demonstrate and maintain financial sustainability in the medium and long term whilst achieving the strategic objectives of Council.

The strategy has been prepared to guide Council in its financial decision making ensuring that the following principles are followed:

- The community's finances will be managed to provide sustainable and responsible financial management of the community's resources.
- Council will endeavour to maintain community wealth to ensure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation.
- Council's financial position will have a margin of comfort aimed to absorb the impact of unexpected developments, without the necessity for substantial and sustained increases in rates.
- Resources will be allocated to those activities that generate community benefit.
- Applying user pays principles where it is appropriate to do so and there is a clearly identifiable cohort benefit from using those facilities and services.

The strategy establishes the financial framework under which sound and sustainable financial decisions can be made.

### **Financial Principles and Assumptions**

- **The community's finances will be managed to provide sustainable and responsible financial management of the community's resources.**

Council will ensure it only raises the revenue it needs, and does so in an efficient, sustainable and equitable manner. Council will manage community funds effectively and ensure information regarding its financial management decisions is accessible to the community. All rate income is to increase at least at CPI or other relevant inflationary benchmark levels in line with Council's rating policy. Rate income includes all rates that are generated including services.

- **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 service it consumes). Council will invest sustainably in community assets to maintain (and potentially enhance) service levels. All receivables and liabilities are to be maintained at current levels except where new loans are acquired, and debt levels are consistent with returns on investments.

- **Council will apply user pays principles where it is appropriate to do so and there is a clearly identifiable cohort benefit from using those facilities and services.**

Council will ensure that the user pays approach continues as Council's preferred revenue collection method.

- **Council's financial position will have a margin of comfort aimed to absorb the impact of unexpected developments, without the necessity for substantial and sustained increases in rates.**

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 revenue and expenses as a result of any changing economic environment can be absorbed.

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

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

- **Asset renewal requirements will be based on Council Asset Management Plans.**

All future budgeting will be based on the Asset Management Plans by asset class that have been developed for the next ten to twenty years. Should the work not be undertaken for the specified year, it will be rescheduled for a later date and the Long-Term Financial Management Plan updated accordingly. Depreciation will be maintained in accordance with Asset Management Plans with the allowance for sustainable new/upgraded assets.

#### **Other Assumptions**

- All service delivery to be maintained at not less than the **2020-2021** levels.
- Asset revaluations are not included as they are usually adjusted directly to equity.
- Fees and charges maintained at the current service level with an annual CPI or relevant inflationary increase.
- Roads to Recovery grant funding is assumed to be committed for the life of the LTFMP.

#### **Long Term Estimation & Risk**

The FMS is based on assumptions about the future. The future is uncertain and therefore there is a high risk that circumstances may change, some of which are within Council's control such as policies and service delivery. Others outside Council's control include legislation, demographics, community needs, development levels, natural disasters, and modifications to levels of income from Federal and State Governments.

Council's three largest revenue streams are rates, operational grants and user fees - the three largest expense items are employee costs, depreciation and materials and supplies. The outcomes of the FMS are significantly affected if actual results in these major categories fluctuate and are therefore difficult to forecast. Reviewing and updating of the FMS is in accordance with the annual planning process so as to incorporate any future changes in council policy, priorities, new initiatives or strategic direction. The review will also take into consideration new information that is available which may significantly impact Council's long-term financial sustainability.

## Cash Reserves and Borrowing

Cash reserves require careful management to both achieve optimum investment incomes and to ensure that cash is available when needed for the planned expenditures. Funds will be invested in a manner that allows them to earn interest for as long as possible while retaining flexibility in accessing those funds for Council purposes. The LTFMP makes provision for cash reserves and financial assets to be maintained at or near current levels over time. This will maintain the results and infrastructure investment that has occurred since the implementation of the Long-Term Financial Management Plan in 2013.

## Financial Targets

It is important to note that ratios are only indicators of financial performance and should not be considered in isolation when determining sustainability. It is important to consider the ratios over time when considering trends. The results taken over time indicate good or poor performance.

Tasman Council's financial targets will be in line with those required by the Tasmanian Audit Office and as a minimum include the following:

Ratio	Method of Calculation	Comments
Underlying Surplus or Deficit (Net Result for the Year) Benchmark > 0% Target >1% surplus	Total operating revenue LESS total operating expense	Operating result is the total operating revenue less total operating expense.  It is an indicator of a Council's ability to meet its operating expenses from its operating revenue. The operating result has a direct impact on the equity or net worth of the Council. A surplus result contributes to the net worth, whilst a deficit result reduces the net worth of a Council. To be able to provide a given level of recurrent service, it is important to achieve consistent surplus operating results on a yearly basis.
Net Financial Liabilities Benchmark 1.00 Target > 1.10	Current Assets <u>Divided by</u> Current Liabilities	This measures the extent to which Council has liquid assets available to meet short-term liabilities. A ratio of 1.00 or more indicates that there is enough cash and liquid assets to cover short-term liabilities.
Net Financial Liabilities Ratio Benchmark = 0% to (50%)	Total Liabilities less Liquid Assets <u>Divided by</u> Operating Income	The net financial liabilities ratio is defined as the significance of net amount owed compared with the period's income. It indicates the extent to which net financial liabilities could be

		met by operating income. Positive ratios indicate liquid assets in excess of total liabilities.
Asset Renewal Funding Ratio Benchmark = 90-100%	Projected Capital Funding Outlays <u>Divided by</u> Projected capital expenditure funding	Measures Council's capacity to fund future asset replacement requirements in each major Asset Class
Asset Sustainability Ratio Benchmark = 100%	Capex on Replacement/Renewal of Existing Assets <u>Divided by</u> Annual Depreciation Expense	Ratio calculates the extent to which Council is maintaining operating capacity through renewal of their existing asset base.

Based on the long-term financial strategies, planning and assumptions above, Council's Long Term Financial Management Plan has been developed.

### Long Term Financial Management Plan (LTFMP)

The LTFMP has been developed to assist Council in adopting a budget within a longer-term prudent financial framework. The key objective of Council's LTFMP is financial sustainability in the medium to long term, while linking to Council's Vision and Key Focus Areas as specified in its strategic plan. The LTFMP is a guideline for future action and encourages Council to take into consideration the future impact that decisions made today may have on Council's long-term sustainability.

The LTFMP forms part of the strategy to achieve the Vision and Key Focus Areas of the Strategic Plan, with the Strategic Plan also providing for the development of a rolling annual financial plan.

The LTFMP establishes the strategic financial direction for the Council to meet the funding and investment challenges that lie ahead in the next ten to twenty years. It is an essential tool in delivery of the Strategic Plan and demonstrates Council's commitment to undertake sound financial planning to ensure the future prosperity of its community. The following table demonstrates the context of how the LTFMP fits into Council's overall financial management framework:





## FINANCIAL STATEMENTS

The LTFMP is intended to achieve the following objectives in the twenty-year time frame:

- Maintain the existing range and level of service provision and develop the capacity to grow and add new services where appropriate;
- Maintain a strong cash position, ensuring the Council remains financially sustainable in the long term;
- Achieve underlying operating statement surpluses (excludes non-operational items such as granted assets and capital income);
- Maintain a debt profile below prudential guidelines; and
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal governments.

In preparing the LTFMP, the following principles of sound financial management have been applied:

- Prudent management of financial risks relevant to debt, assets and liabilities;
- Provision of reasonable stability in the level of rate burden;
- Consideration of the financial effects of Council decision on future generations; and
- Full, accurate and timely disclosure of financial information.

It is important that the LTFMP is not about deciding on what Council will spend on individual projects. The LTFMP is about the various strategies that will effectively determine the amounts of funds that Council will have at its discretion in future years.

The Financial Management Strategy and LTFMP are guiding documents to consider when developing budget estimates, rather than documents that dictate future decisions of Council. The LTFMP estimates will be revisited and updated regularly to reflect any strategies that arise from the Council planning process.