George Town Council
Financial Management Strategy

Contents

1. Executive Summary

The financial management strategy is a document that is intended to guide Council's financial decisions. The following are the overall principles on which the financial management strategy has been based.

- 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 is also enjoyed by future generations.
- Council's financial position will have a margin of comfort to enable it to absorb unexpected developments without having to resort to substantial rate increases.
- Resources will be allocated to those activities that generate community benefit.
- Managing the impact of the legacy of water reform to ensure that the community is not financially disadvantaged.
- Applying user pay principles where it is appropriate to do so and where there is a clearly identifiable benefit from using those facilities and or services.

The strategy assists in the development of long term financial planning and determines financial boundaries for the delivery of operational and capital plans. The key focus of the financial management strategy is to demonstrate and maintain financial sustainability in the medium to long term while supporting the achievement of Council's strategic objectives.

The following diagram illustrates the connection and interaction of the financial management strategy within the overall financial management framework of Council.

2. Key Statistics

Location:	Northern Tasmania on Bass Strait
Area:	64,900ha/649km²
Roads:	271km
Population (2012 estimate):	6,967
Water Supply:	TasWater
Electors on Roll:	4,879
Rateable Properties:	4,405

3. Introduction

In preparing the financial management strategy the following overall financial principles have been applied.

- Prudent management of financial risk in relation to debt, assets and liabilities.
- Provision of reasonable stability in relation to the rate burden.
- Consideration of the financial impacts of Councils decisions on future generations.
- Full, accurate and timely disclosure of financial information.

The financial management strategy is not about deciding on which projects Council's will allocate funds to. The financial management strategy is about the various individual financial strategies that Council will apply, which in turn will determine what level of funds Council will have available in the future to allow Council to resource its strategic objectives.

The financial management strategy is a guiding document to consider when developing budget estimates, rather than a document that is dictating Council's future decisions.

4. Financial Management Principles

The following principles serve to guide Council in setting its financial management strategies. These are given practical effect through the implementation of individual strategies.

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

> Council will ensure that it only raises the revenue that it requires and does so in an efficient, equitable and sustainable manner. Council will manage community funds effectively and will ensure that information regarding its financial decisions is accessible to the community.

Council will maintain Community wealth so that the wealth enjoyed by the generation of today is enjoyed by generations in the future.

> Council will seek to ensure equity across generations by recognising that each generation must pay its own way and meet recurrent expenditure from recurrent revenue (the full cost of the service that it consumes). Council will invest sustainably in community assets to maintain and potentially increase service levels.

Council will manage the legacy impact of water reform to ensure that the community is not financially disadvantaged.

Council will aim through the owner's representative group to support the redistribution of dividends to owners at an appropriate level.

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

Council will maintain user pays principle as a preferred revenue collection model.

Council's financial position will have a margin of comfort to enable it to absorb unexpected developments without having to resort to substantial rate increases.

Council will ensure that it accumulates 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 volatile changes in revenues and expenses as a result of a changing economic environment can be absorbed.

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

Council will ensure that transparent and robust processes are in place for the allocation and prioritisation of resources through budgetary decision making as well as for choosing efficient methods for the delivery of specific projects and services. Council will recognise its service obligations to the George Town Local Government area in its decision making.

5. Cash Reserves

5.1 Overview and Purpose

Cash reserves require considered management to ensure that funds are available to meet planned expenditure when needed and to achieve optimum investment incomes. Available funds will be invested for as long as possible while retaining flexible access to those funds when required. Sufficient funds will be retained on hand to meet current liabilities as and when they fall due. Future works are expected to be funded by a combination of cash, rates and debt. Council will ensure that investment returns are maximised while at the same time minimising any associated risk.

5.2 Strategies

- Daily bank reconciliation.
- Daily cash forecasting.
- Budget to align with the long term financial plan.
- Cost benefit analysis applied to projects and services being considered.
- Council invests in high security low risk products with financial institutions that are government guaranteed.
- Current liabilities brought to account monthly and recognised correctly.
- Monthly reporting to Council of cash balances, current liabilities and investment income.

5.3 Aims and Targets

Performance measure:	Cash Balance
Performance calculation	Cash held excluding unspent specific purpose grant funds
Aim	Positive balance
Target:	Cash balance>Current liabilities

Performance measure	Current ratio
Performance calculation	Current assets/current liabilities
Aim	100%
Target	101%

6. Rating

6.1 Overview and Purpose

Councils rating strategy is established via a framework whereby rates and charges will be shared by the community. A higher percentage of rates and charges as a proportion of total revenue represents greater financial independence and financial sustainability.

Council only raises the revenue that it needs and does so in the most efficient and equitable manner possible. Council must balance its service levels with the needs and expectations of the community and set levels of rating to adequately fund its roles and responsibilities.

The following factors can affect the level of rates and charges;

- Distribution and level of Commonwealth and state funding.
- Socio economic profile of the area as it affects capacity to pay.
- User pays policies.
- Level and range of services including any regional responsibilities.
- Current economic environment.

In setting its rates and charges each year Council considers the current economic climate and the capacity of the community to pay for services. The aim of rates and charges decision making is to spread the burden fairly across the community.

The rating structure determines how Council will raise rate revenue from properties within the local government area. The structure does not influence the amount of rate revenue raised but only the share of rate revenue contributed by each property.

Council has established a structure of comprising two key areas being a general rate and a service rate. General rates are based on the capital valuation of the property as provided by the Office of the Valuer General. The service rates currently apply to waste management services. The user pays component is designed to reflect payment by users to Council for services provided. Council attempts to strike a balance between these two elements of rating revenue to provide equity in the distribution of the rate burden across its local government area.

6.2 Strategies

The most appropriate strategy is that which provides Council with sufficient rate revenue in order that it may in conjunction with other revenues sources;

- Achieve an underlying surplus in the income statement.
- Achieve a sustainable cash flow.
- Fund capital projects approved by Council.
- Maintain the percentage of total cash receipts from rates at a minimum of 62% or increase this if possible.
- Align rates revenue raised within the annual budget estimates with the long term financial plan.

6.3 Aims and Targets

Performance measure	Percentage of total cash receipts from rates
Performance calculation	Cash receipts from rates/total cash receipts
Aim	62%
Target	>62%

Performance measure	Underlying surplus ratio
Performance calculation	Underlying surplus or deficit/total operating revenue
Aim	>0%
Target	>0.5%

7. Fees and Charges

7.1 Overview and Purpose

Council has for a number of years implemented a user pays principle in charging for some services. This recognises the situation whereby some services are consumed by a discrete section of the community who may or may not be ratepayers or residents. This approach does not imply that every service or function is subject to the principle nor does it prevent Council from exempting some sectors of the community from paying for the service where it deems the service to be a community service obligation.

7.2 Strategies

- Review all fees and charges prior to the setting of budget each year.
- Determine those fees and charges to which the user pays principle applies.
- Consider an appropriate increase for those fees and charges where the user pays principle applies.
- Align fees and charges set in the annual budget estimates with the long term financial plan.
- Consider the application of new fees or charges where a new service is introduced or amend fees and charges where service delivery is changed significantly.
- Maintain the percentage of total cash receipts from user charges at 4.2% or increase this if possible.

7.2 Aims and Targets

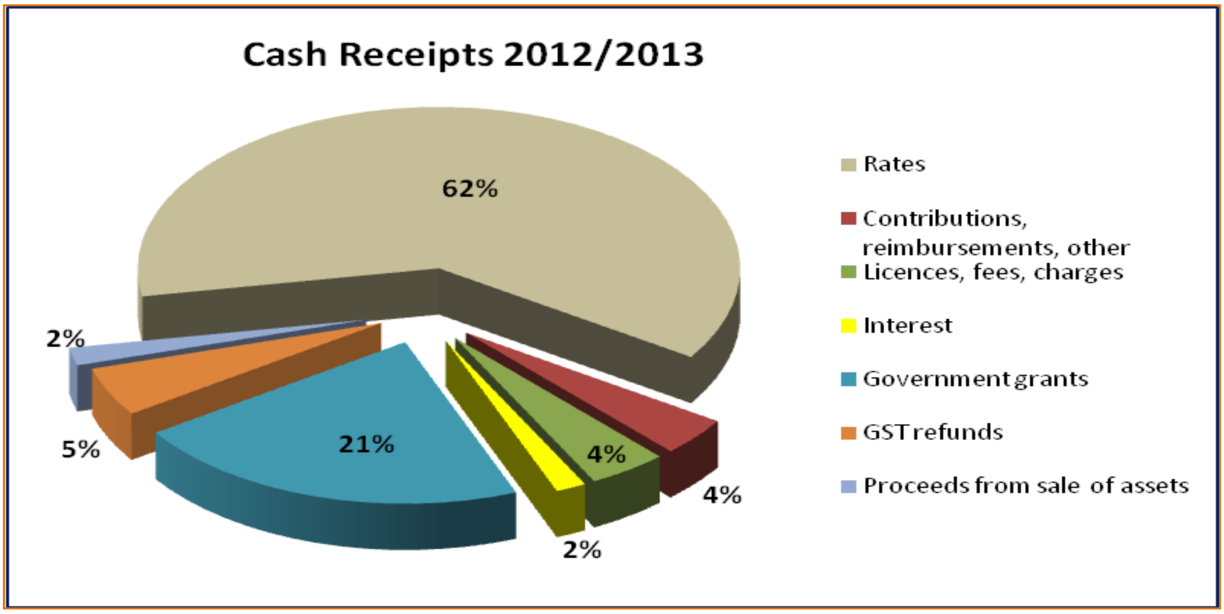
Performance measure	Percentage increase in fees and charges
Performance calculation	Last year's fee or charge/this year's fee or charge (expressed as a percentage)
Aim	Local government cost index percentage increase applied
Target	Local government cost index percentage increase applied

Performance measure	Percentage of cash receipts from user charges
Performance calculation	Receipts from user charges/total receipts
Aim	10%
Target	4.5%

8. Other Revenue

8.1 Overview and Purpose

The major source of revenue outside of rates and user charges is government grants and contributions/reimbursements/other (including dividends received from the water corporation).



Council's strategy concerning government grants has been to maximise any opportunities available to it for grant allocations and to advocate for an increased allocation of funding to the local government sector. It is not recommended that Council increase its reliance on grant income. It is recommended that Council seek alternative revenue sources.

Council is able to utilise grant and other revenue to fund the delivery of Council services as part of the overall mix of revenue streams available to it.

8.2 Strategies

- Apply for grants as they become available.
- Research and identify new revenue streams that could compliment or substitute for existing sources.
- Investigate the rationalisation of Council assets that could provide some funding from their sale, for assets that are surplus to Council's core needs.
- Through the owners representatives ensure forecast profits of the water corporation are maintained.
- Align other revenue set within the annual budget estimates to the long term financial plan.

8.3 Aims and Targets

Performance measure	Forecast revenue from Water Corporation
Performance calculation	Actual revenue from water corporation/forecast revenue from Water Corporation
Aim	100%
Target	100%

Performance measure	Successful grant applications
Performance calculation	Number of successful grant allocations/Number of grant applications

Aim	100%
Target	100%

Performance measure	Proceeds from the sale of non current assets
Performance calculation	Proceeds from the sale of noncurrent assets/Budgeted proceeds from the sale of non current assets
Aim	100%
Target	100%

9. Debt Levels

9.1 Overview and Purpose

Debt will be utilised as a tool to fund community assets. Debt will be considered;

- In the context of Council's strategic objectives.
- In the context of Council's long term financial forecast and objectives.
- As funding for long term infrastructure creation.
- As a means of spreading the cost of infrastructure creation over the ratepayers who use it (intergenerational equity).
- As a last resort to fund temporary cash shortfalls.

Council's level of debt had been reducing up until the 2006/2007 and 2007/2008 financial years when significant borrowing was undertaken to fund the redevelopment of the Memorial Hall, Macquarie Street. The net loan balance for the financial year ended 2012/2013 was $2.23 million. Future funding is expected to be undertaken if Council is to replace its infrastructure and maintain service levels.

If debt levels are too high interest obligations will limit the capacity of Council to invest in infrastructure and services. Council should conversely be cautious about cash held, investments and cash reserves particularly where asset condition, asset maintenance expenditure and capital investment is below the levels required to meet community expectations regarding service levels.

Council should avoid becoming reliant on interest received from investments to support recurrent expenditure. Relying on interest income means that communities are not being rated at sufficient levels. It also deprives the community of potential infrastructure as the invested funds could be used for infrastructure development.

Levels of debt and or reserves are highly relevant to maintaining intergenerational equity. High levels of cash reserves mean that current generations are paying for benefits that accrue to future generations and conversely high levels of debt means that future generations are paying for benefits received by today's generation. An indicator of debt levels is the net financial liabilities ratio. An explanation of the ratio is provided below.

Indicators for the Measurement of Debt Levels

Net financial liabilities is an indicator of the level of debt being managed. If the net financial liabilities ratio is positive, Council has no "net debt". If it is negative then the council will be managing some level of debt.

	Description	Indicator Results
Net financial liabilities	Liquid assets less total liabilities	Net financial liabilities equals total liabilities less financial assets.
Net financial liabilities ratio	Liquid assets less total liabilities/Total operating revenue	Where the value is falling over time Council's capacity to meet its financial obligations from operating income is improving.

George Town Council's history as indicated by the net financial liabilities ratio is shown in the table below. It can be seen that the average for the 5 year period ended 2011/2012 was 2.08%.

Council	2007-08	2008-09	2009-10	2010-11	2011-12	Average
George Town	-13.20%	-2.80%	0.40%	4.10%	21.90%	**2.08%**

The ratio for 2012/2013 is calculated at 11.3%, making the 6 year average to 2012/2013 3.62%. Total debt borrowings as at 30 June 2013 were $2.23m. The current debt was borrowed based on intergenerational equity principles to fund the redevelopment of Memorial Hall and extends to the year 2032 subject to regular reviews.

It is generally expected that Councils should be able to manage a modest level of debt in order to fund infrastructure development. Accordingly the Auditor General recommends a target for the net financial liabilities ratio of between zero and negative 50. This implies that Council should plan to manage modest levels of debt in order to fund infrastructure development and deliver services.

The long term financial plan will consider debt when it is required to fund infrastructure renewals or replacements.

9.2 Strategies

- Council consider borrowing for new capital projects only when surplus operating results are being achieved in the operating statement.
- Balance of any surplus funds used to retire debt or minimise the use of new debt.
- Any new loan borrowings are to be used to fund intergenerational capital investments where community benefits are long term and other sources of funding are not available.
- Council will remain a modest debt user by maintaining a net financial liabilities ratio of between zero and negative 50.
- Council borrows funds for capital projects that provide intergenerational equity.
- Council will only use debt to fund capital expenditure.
- The term of any debt shall not exceed the life of the asset it is used to fund.

- Council will align its borrowing requirements with the Asset Management Plan and the Long Term Financial Plan.

9.2 Aims and Targets

Performance measure	Net financial liabilities ratio
Performance calculation	Liquid assets less total liabilities/Total operating revenue
Aim	Between 0 and negative 50%
Target	Negative 25% (assumes a level of modest debt).

10. Funding of Infrastructure

10.1 Overview and Purpose

A decision not to fund the renewal of assets would lead to reduced service levels and higher costs in the future. Increases in rates are often seen as the solution to the problem of aging assets however there are a number of options available to Council to fund the maintenance and management of its major infrastructure. Options which could be applied either individually or in combination are as follows.

- Maintain underlying surpluses.
- Raise additional revenue.
- Changing the composition of capital spending to ensure adequate asset renewals.
- Re-evaluation of service levels and standards.
- Choosing low cost strategies over high cost asset strategies.
- Demand management.
- More efficient use and operation of assets.
- Reducing debt to create future borrowing capacity.
- Carrying out cost benefit analysis on the services being provided including the use of whole of life costing for proposed projects.
- Asset rationalisation and review of asset growth strategies.

Emphasis needs to be placed on understanding and planning for long term infrastructure funding that needs to allow for;

- Existing services/operations, maintenance, asset renewal, asset upgrade and proposed variations,
- New services and assets required.

The key objective of Council's asset management is to maintain Council's existing assets at desired condition levels. Desired condition levels will need to be determined based on a level of community consultation as part of the formulation of asset management strategies and the asset management plan. 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.

Indicators for asset management practices and measuring the level of infrastructure investment

Ratio	Method of Calculation	Comment
Asset Sustainability Ratio	Asset replacement expenditure/Depreciation	A measure of whether assets are being replaced at the rate they are wearing out. The ratio is viewed as being only a rough measure as the consumption of assets (as measured by depreciation) may not agree with asset renewal expenditure required.
Asset Consumption Ratio	Written down value of plant, equipment, infrastructure assets/Current replacement cost of depreciable assets	The average proportion of as new value remaining in the infrastructure assets. This ratio seeks to highlight the aged condition of Council's stock of depreciable assets.
Asset Renewal Funding Ratio	Current value of projected capital renewals in long term financial plan/Current value of the required capital expenditure on renewals over the same period	This represents the extent to which the required capital expenditures on renewals per the Asset Management Plan have been incorporated into the long term financial plan.

10.2 Strategies

The following represent strategies that Council will employ in order to fund infrastructure adequately.

- Review the need to renew assets based on community demand (community consultation and engagement required).
- Continue to improve the rate base.
- Continue to improve asset management practices with a high priority being to have adequate asset condition and fit for purpose assessments to enable reasonable long term capital renewal forecasts which can be directly linked to long term financial planning and annual budgets.
- Implement funding plans that meet the renewal and new funding requirements over the life of asset management plans.
- Asset management plans are updated for all classes of Council's assets with a focus on ensuring assets are fit for purpose and provide the desired level of service to the community.
- Asset rationalisation and review of asset growth strategies.
- Carrying out cost benefit analysis on the services being provided including the use of whole of life costing for proposed projects.

Current Status (May 2014)

Council has a draft asset management plan which was constructed several years ago and is in need of updating. Work is currently being done in order to update the asset management plan, asset management strategy and the long term financial plan.

When calculating the asset renewal funding ratio for the year ended 30/6/2013 the ratio was 77%. This means that Council is only achieving 77% of the asset renewal expenditure that is identified as required in the draft long term financial plan.

Council's asset renewal funding ratio is shown in the table below. As the ratio can only be calculated where Council has a long term financial plan the ratio has only been able to be calculated from the 2011/2012 financial year.

Council	2010-11	2011-12	Average
George Town	NA	100.00%	**NA**

The ratio calculated for 2012/2013 was 77%. The challenge for Council is to lift the ratio using the mix of strategies noted above.

Council's road asset consumption is noted in the table below. Given roads are by far the largest class of asset owned by Council this ratio is considered the most important of the asset consumption ratios.

Council	2007-08	2008-09	2009-10	2010-11	2011-12	Average
George Town	73.10%	74.40%	73.40%	72.40%	72.70%	**73.20%**

It can be seen that Council is trending towards and an average of about 73%. The recommended target for this ratio is 60%.

Council's asset sustainability ratio is shown in the table below.

Council	2007-08	2008-09	2009-10	2010-11	2011-12	Average
George Town	71.00%	108.00%	157.00%	91.00%	70.00%	**99.40%**

It can be seen that Council's ratio has varied over the years as noted in the table and is averaging 99.40%. The recommended target for this ratio is greater than 100%. The challenge for Council is to maintain if not lift slightly the ratio using the strategies note above.

10.3 Aims and Targets

Performance measure	Asset sustainability ratio
Performance calculation	Asset replacement expenditure/Depreciation
Aim	Greater than 100%
Target	100%

Performance measure	Road Asset Consumption Ratio
Performance calculation	Written down value of road, infrastructure assets/Current replacement cost of depreciable assets
Aim	Greater than 60%
Target	70%

Performance measure	Asset Renewal Funding Ratio
Performance calculation	Current value of projected capital renewals in the long term financial plan/Current value of the required capital expenditure on renewals over the same period
Aim	Between 90% and 100%
Target	95%

11. Operational Budget (Recurrent Funding)

11.1 Overview and Purpose

Council provides a wide variety of services as detailed in the Annual Plan. All these services are funded through the operational budget with revenue raised from rates, charges and other income each year. Through the strategic planning process Council determines which services it will ultimately provide to the community. The annual budget process is then developed with reference to the annual plan and linked to the strategic plan with the long term financial plan providing guidance. One of the key objectives of the long term financial plan is to maintain desired service levels over the life of the plan. Council should seek to generate sufficient funds from operations to provide the desired level of service to the community.

11.2 Strategies

- Operational budget is aligned to the annual plan.
- Annual plan is linked and conforms to the strategic plan.
- Operational budget is guided by the long term financial plan.
- Operational budget is guided by the asset management plan in terms of infrastructure maintenance.
- Operational budget developed with an underlying surplus as a priority.
- Cost increments allowed for at the rate of the Local Government Cost Index or where other specific agreement or documents are in place by the increase agreed or determined in them.

11.3 Aims and Targets

Performance measure	Underlying surplus ratio
Performance calculation	Underlying surplus or deficit/total operating revenue
Aim	>0%
Target	>0.5%

11. Valuation of Assets

11.1 Overview and Purpose

At the end of each year Council assesses whether the carrying amount of its assets varies significantly from the fair value. This is done by consideration of changes in aspects such as utilisation, obsolescence, assessment of unit rates, patterns of consumption, residual life, useful life, condition and remaining useful life. Based on this assessment assets may need to be re-valued and or depreciation rates changed.

Council's valuation process and methodology are contained in the George Town Council Valuation Methodology Manual which is to be considered when implementing the strategies outlined within this document.