

PURPOSE

This Policy has been developed to provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources.

POLICY INTENT

The main objectives of this Policy are to:

- 1 Assist Council to use community money, together with other funding available, wisely to provide prioritised services and ensure financial sustainability.
- 2 Provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources.
- 3 Guide Council in the management of the ten-year financial plan and determine financial boundaries for delivery of operational and capital plans.

OUR WOLLONGONG OUR FUTURE 2035 OBJECTIVES - STRATEGY

4.14 Council demonstrates responsible leadership that is customer focused, demonstrates respect and inclusion, and uses resources that are managed effectively to ensure long term sustainability

POLICY

Introduction

Wollongong City Council's Financial Sustainability Policy provides a clear direction and context for decision making that guides the allocation, management and use of its financial resources. It aims to ensure that Council remains financially stable while giving focus to financing key Council priorities through strong financial management. It acts as the catalyst for improving efficiency and releasing resources to improve frontline services and continuity. The Financial Sustainability Policy sets parameters within which Council agrees to operate to maintain accepted financial outcomes and should be viewed as an enabling Policy that aims to provide financial stability, affordability, focused delivery and value for money over the short, medium and longer term.



Challenges

Council and the community have created a stable and sustainable financial environment in the short to medium term that should allow Council to provide its existing levels of service without significant change to future income requirements. In the future, Wollongong City Council will continue to face challenges that require strong financial leadership and creative solutions applied to matching its community's aspirations to its capacity and desire. The key challenges faced include:

- 1 Better understanding the community's needs, wants, desires and priorities for services and service levels and matching that to the organisation's, and community's, capacity to sustainably fund the provision of agreed services.
- 2 Providing capacity to meet contemporary and increasing expectations from all areas including community, service users and government.
- 3 Ensuring future decisions provide affordable long term solutions that are within the financial capacity of our community.
- 4 Delivering organisational change to improve efficiency and quality of service.
- 5 Financial risk associated with significant growth and development of new infrastructure and services in the West Dapto area.
- 6 Managing any future demands associated with climate change.

The following aims and parameters are designed to assist Council in achieving financial stability, affordability, focus and efficiency.

1 STABILITY

1.1 Available Funds

- a Council will aim to maintain Available Funds (the unallocated portion of revenues) between 3.5% and 5.5% of the current operational revenue [pre capital].

Available Funds are funds that Council has earned but not allocated to specific expenditure in the past or future. They are held as Council's savings and are used to act as a buffer against unanticipated future costs or can be used to provide capability to take advantage of opportunities that may arise.

- b Where the Available Funds level is above maximum requirements, additional funds will be transferred to the Strategic Projects Restricted Asset with any allocation of funds to be considered through the Strategic Planning process.

Where the Available Fund balance falls below the targeted minimum level in a period, the onus through the planning process, is to ensure adequate adjustment is made to restore the balance in future programs, within an acceptable timeframe.

1.2 Asset Management - Replacement

Council will plan to achieve Funds Available for Asset Replacement at least equal to the estimated cost of replacing assets due for renewal.

Funds Available from Operations is a Wollongong City Council result that measures the amount of funds available after all of Council's operating expenditure is met. These funds are generally available for capital expenditure or held as Available Funds. Unlike the Operating Result, it does not include non-cash transactions.

Funds Available for Asset Replacement would be a subset of the Funds Available from Operations that are not required to be moved to Restricted Assets and are not made available for new assets or increases to the Available Funds balance. Generally, these decisions would be made after the asset replacement requirements are achieved.

Council's intent from a sustainability perspective is to prioritise Funds Available for Asset Replacement to at least provide sufficient funds to replace assets as they fall due over the planning cycle. The replacement of existing assets should be at the agreed current standard, determined through the Asset Management Plans. Through the planning process, Council may also determine a level of Funds Available from Operations that will be allocated to the provision of Expanded or Upgraded assets and/or New assets.

1.3 Long Term Asset Renewal

Council will monitor the long term asset renewal requirements and plan for potential issues outside of the current planning cycle.

Council's Asset Management Strategy includes the measurement of the Long Term Asset Renewal Funding Ratio, which is a measure of the total renewal value of all existing assets divided by their estimated useful lives (ie, an annualised replacement cost) compared against Funds Available from Operations. Council recognises that estimated renewal values and estimated useful lives for long lived assets have a reasonable degree of variation and/or uncertainty. While gaps may be reported through this measure at a point in time, there are currently long lead times and many variables will change before such gaps are realised.

Council can take a longer-term view to managing such gaps. The short to medium term measures, such as the Asset Management Renewal Ratio above, will provide greater certainty and lower probability of variation over the current plan, while this measure will provide an eye on the future and allow for solutions to be developed that may include funding and potential changes to current asset management practices and assumptions.

2 AFFORDABILITY

2.1 Total Funds Result

Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows.

Short term affordability requires the annual budget be affordable and cash to be managed to ensure that payments can be made as required. By holding a level of available funds and planning for near breakeven funds results, this position can be maintained. The total funds result is inclusive of financing cash flow and movements in Restricted Assets.

2.2 Capital Expenditure

In determining the approval of budget for new, expanded, or upgraded assets, Council will ensure that the whole of life cost is considered and is able to be sustainably accommodated within future forecasts.

Capital expenditure decisions need to be fully informed by understanding the impacts on future results. For example, a building cannot be considered as a one-off cost, it will have operational costs for electricity, water and consumables and will normally involve services that will require operational budgets, including employee costs. The building will then need to be maintained and eventually renewed and/or be disposed of. Consideration of these costs and any potential revenue must be part of the initial evaluation and approval process and be recognised in future estimates to aid future planning.

2.3 Investment of Surplus Cash

- a Council will invest surplus cash in accordance with its Investment Policy.

Investments are surplus funds at a point in time, either earned from prior operations or available due to timing between income and expenditure (including Restricted Assets). Interest on Investment of surplus funds provides additional resource to Council and assists in maintaining the real value of restricted funds held. Council, in its Investment Policy, carefully considers its stewardship role and prudent investment risk to optimise returns. Events in past years have highlighted the need to remain vigilant in securing public monies and making appropriate risk reward decisions.

- b Returns on externally and agreed internally restricted cash will be transferred to restricted assets and treated as capital revenue where required.

- c A baseline return on investments will be included in the Long Term Financial Plan. Additional returns above the baseline will be treated as short term capacity within the Strategic Planning process and be considered for non-recurrent allocation.

Returns from investments vary significantly from year to year based on interest rates and the level of cash held. From a planning perspective, it is deemed prudent to ensure that Council's investment returns are not funding ongoing operations which would be a risk when returns diminish. For this reason, it is considered reasonable to allocate these funds through the planning process for one-off operating projects or to capital where ongoing funding obligations and costs can be accommodated within the Long Term Financial Plan. It is also important to understand that predicted future returns may not be realised and funding may not be available as expected.

2.4 Borrowing

- a Council will actively consider borrowings through its Resource Strategy and Capital Budget as a source to finance timing mismatches between cash availability and expenditure requirements and to provide for intergenerational equity where determined applicable.

- b Borrowings will be considered for investment in assets acquired to provide additional service or service level, to finance investments, or to provide for timing mismatches in asset replacement funding.

- c Internal borrowing will be applied first where funds are available and it is determined to be more economical.
- d Interest on internal borrowings will be costed where borrowing is applicable to Income Activities, to reflect the opportunity cost and will be applied in business cases to reflect the actual return on investment.
- e Borrowing terms will preferably be structured to match, but not exceed, asset life where there is appropriate product in the market to do so.

This Policy focuses on ensuring that Council continually sets a financial plan that ensures financial sustainability. Consideration of the Council services and the resources, including assets, required to provide those services must be affordable, that is, they must be within existing capacity, funded by increased capacity through efficiencies or based on a willingness of the community to provide additional revenue to fund increased service. Borrowings do not generate income and don't allow Council to acquire things we couldn't otherwise afford. They do provide for timing mismatches between cash and expenditure with an interest cost and they do allow Council to provide assets for future community use without impacting on past or present communities (intergenerational equity). They also allow for investment in assets that provide future positive returns.

Consideration of borrowings will be based on the needs or community demand for services and the projected capacity to pay for those services, or the willingness to raise additional revenue for them. Actual borrowings will be based on liquidity requirements and not specific assets or investments.

2.5 Rates, Fees & Charges

- a Council will review and maintain its rate base to ensure long term financial viability.
- b Business rating structures and differential pricing between categories will be considered as part of the Annual Revenue Policy development.
- c Council's pricing methodology will be applied consistently for all fees and charges. Fees & Charges will be reviewed on a cyclical basis to ensure compliance.

Council's revenue strategies will be considered as part of the long-term financial planning in accordance with this Policy. General rates increases are determined through IPART's 'rate pegging' process and approved by the Minister for Local Government. The rate peg has generally been in line with increases in costs to local government. Rate variations beyond this level will be linked to community aspirations for services which will be considered in conjunction with other revenue options and cost reduction opportunities.

2.6 West Dapto

- a Increased annual rates created from subdivision in West Dapto will be applied to meet West Dapto operational costs and the net Funds Available from Operations and funding for Depreciation in the area will be restricted.
- b In the transition to full development of the area, the West Dapto restricted asset will be made available to meet infrastructure and planning requirements in the area where required.

West Dapto is the last significant 'green fields' development in Wollongong. It will have significant financial impacts over time. It is anticipated that there will be substantial developer contributions and capital expenditure. The management of the Development Contributions Plan has inherent risks due to estimating, scoping and timing variables. Rates and other revenues will usually precede operational demand and assets built will require little renewal or maintenance for seven to 15 years creating a perception of improved financial performance. Experience in developing councils has shown the negative long-term impacts that the delayed expense pattern has if additional rate revenue is built into other recurrent operations.

It is considered important that this longer term view of additional revenue is given and appropriate long-term provisions are made from the commencement of the development.

3 FOCUSED DELIVERY

3.1 Operational Services

Council's Delivery and Operational Plans will be used to:

- determine core and value added services,
- identify, deliver and report on business improvement initiatives, and
- set actions to improve service levels, costs and delivery methods.

Alignment of Council services with Our Wollongong 2035 will continue to play an important part in determining the future needs and operations of the organisation. Assuring that the right things are done in the most efficient way and being able to measure that performance should provide a sound platform for communicating and planning to meet agreed community expectations.

3.2 Grant Funding and other Capital Contributions

Council will actively pursue grant funding and other contributions to assist in the delivery of core services.

Priority for grants should be directed to actions and projects that are included in Council's Community Strategic Plan, Delivery Plan, Operational Plan or supporting documents. Continued effort in obtaining and improving Council's success in targeted grant funding is vital to future enhancement and progression of objectives.

4 EFFICIENCY - VALUE FOR MONEY

4.1 Service Optimisation

Council will develop a program of service optimisation reviews.

The fundamental premise behind the Service Optimisation Program is to assess if Council is delivering the right things in the best way, by considering the following principles:

- *How well do we balance service levels and community desire against affordability for Council and our community/customers?*
- *Are we delivering a good customer experience?*
- *Are our services operating efficiently and effectively to deliver better value?*

4.2 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 our customers.

All services should be reviewed continually to consider efficiency and periodically through Quarterly Reviews to provide up to date estimates of cost and revenues. As part of the review processes the service budget should be zero based in line with the agreed service levels from time to time.

Council will also continue to deliver procurement savings through improved strategic procurement and collaboration with other authorities and agencies.

LEGISLATIVE REQUIREMENTS**Local Government Act 1993 s223**

- (1) The role of the governing body is as follows:
- (c) to ensure as far as possible the financial sustainability of the council.

REVIEW

This Policy will be reviewed a minimum of once every term of Council, or more frequently as required.

REPORTING

The Key Performance Indicators will be reported in Quarterly Budget Review Statements as follows:

Total Funds Result**Asset Management Replacement Ratio****Available Funds****ROLES AND RESPONSIBILITIES**

The Responsible Accounting Officer will be responsible for monitoring and reporting of success against the principles and objectives of this Policy.

RELATED STRATEGIES, POLICIES AND PROCEDURES

Delivery Program and Operational Plan

Resourcing Strategy

APPROVAL AND REVIEW	
Responsible Division	Finance
Date adopted by Council	30 June 2025
Date/s of previous adoptions	3 April 2017, 17 February 2014, 23 April 2012, 23 June 2009
Date of next review	30 June 2029