

## ITEM 2 PUBLIC EXHIBITION - FINANCIAL SUSTAINABILITY COUNCIL POLICY

This report provides recommended changes to the Financial Strategy Council Policy including a change of name to the *Financial Sustainability Council Policy*. The Policy is developed to provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources to ensure financial sustainability. The proposed changes to the Policy reflect Council's advancement in its Asset Management Strategy and Plan that allow a changed focus on Council's decisions and measurement of asset replacement requirements over the short, medium and longer term.

### RECOMMENDATION

Council endorse the draft Financial Sustainability Policy to be placed on exhibition with Council's Integrated Planning suite of documents.

### REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

Authorised by: Renee Campbell, Director Corporate Services - Connected + Engaged City

### ATTACHMENTS

- 1 Draft Financial Sustainability Council Policy
- 2 Draft Financial Sustainability Council Policy - marked up version

### BACKGROUND

The Financial Strategy, in its current form, was first developed in 2008 and has had several revisions, particularly to the targets for key indicators. The changes in these targets have been modified over time to reflect Council's financial position, maturity and evolution. The first major revision was made in 2014 when, following an extensive community consultation process, the 'Securing Our Future' plan was adopted by Council creating the blueprint for the steps in the journey towards financial sustainability. It is important to remember the 'Securing Our Future' targets were aimed at providing sustainability at the current service levels, by allowing sufficient funding to carry out existing services at existing levels and replace assets with equivalents as required over time.

In April 2017, having reached a reasonably sustainable position, Council adopted a revised Financial Strategy that fine-tuned targets to continue to provide direction and context for decision making in a sustainable way. Further refinement was made in 2021.

In the period from December 2021 to late 2024, there was a period of substantial economic volatility, particularly accelerated inflation, that has impacted Council's cost of service and the valuation and replacement cost of Council's assets. Council has taken many measures to combat these difficult external drivers and has been able to maintain its current services at existing levels through that period. At the same time, the valuation of assets and the resultant depreciation (accounting expression for the consumption of assets over time) led to a negative financial performance result.

Council's financial sustainability is heavily impacted by how Council manages the assets that are used in delivering our services. Council has, to date, applied broad asset management indicators through our Financial Strategy over time, including:

- Operating Result [pre capital]
- Funds Available from Operations equal to Depreciation

With the development of the revised Asset Management Strategy (AMS) and Asset Management Plan (AMP) there is opportunity to reinvent our financial asset management measures in a way that provides improved outcomes, greater understanding and a more mature response to a critical sustainability issue.

The review of the Asset Management Strategy and Asset Management Plans has identified many improvements in asset management assumptions and has provided a clearer set of financial targets and timeframes that will allow this refined approach to our understanding and response to our financial sustainability. This is particularly evidenced through a clearer understanding of Council's asset

replacement requirements over the medium term (10 years) and a revised lifecycle for some asset classes (Buildings, Stormwater, Bridges, Footpaths and Cycleways) based on new assumptions for maintenance and replacement requirements. While some of these measures still require audit review, it is anticipated that Council's annual depreciation will be decreased by around \$13M through these changes.

Importantly from a financial sustainability perspective, the Asset Management Strategy now outlines how Council will ensure that our assets, that support the delivery of the services and functions Council delivers (Delivery Program and Operational Plan), are to be managed so that they are fit for purpose. This includes the renewal of assets as they are required based on the following assumptions:

- The replacement cost of an asset will need to be funded from Council's General Revenue, and/or grants, donations and proceeds from the sale of existing assets.
- The replacement cost of an asset may exceed the Current Renewal Cost held in our financial data.
- The Asset Management Plan identifies where a level of upgrade is essential for some of our assets – this is included in 'Replacement Cost'.
- Upgrades and Expansion to assets above the essential requirements would require additional funding (above sustainability) and would be managed through the Integrated Planning process.

The concept of Replacement Cost, which includes agreed systematic uplifts to assets at time of replacement (such as building compliance), has not previously been accounted for in Council's Policy, as the depreciation proxy only measured the current estimated cost of renewal on a like for like basis. Additionally, the current Accounting Standards apply a prospective approach to calculating remaining depreciation. This impacts the annual depreciation if an asset life is changed (increased or decreased) resulting in numbers that do not reflect the annual replacement lifecycle cost of an asset (estimated cost/life). It is for these reasons that depreciation should not be the measure of funds required for asset replacement where more accurate information is available.

It is recognised that there are other external financial performance indicators that are required to be reported by Council. Many of these indicators are currently being reviewed and new indicators may be introduced in the future. Through our Financial Sustainability Policy, Council has attempted to focus its measures on a small number of critical indicators that best apply to our needs and has continually improved measures over time. Council has continued to report external measures, often with explanatory information required to disclose the deficiencies or circumstances that produce results that often vary from the measures intent. Council will be required to continue reporting other measures as required.

## PROPOSAL

While the underlying structure and most of the existing Policy are not proposed to be changed, it is proposed that Council amend its asset management related policy statements and the underlying measures to align with the revised Asset Management Strategy. This will allow movement away from the broad based accounting measures that have been used as a proxy for many years in the absence of detailed asset plans.

The most significant change is to introduce a clear direction to ensure medium term financial stability and service continuity by stating:

**Council will plan to achieve Funds Available for Replacement at least equal to the estimated cost of replacing assets due for renewal (10 year profile).**

This statement would replace the existing direction to match Funds Available from Operations with Depreciation.

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. The proposed Policy introduces a result titled 'Funds Available for Replacement'. Funds Available for Replacement would be mostly derived from the Funds Available from Operations that are not made available for new, upgraded, or expanded assets, transferred to future asset renewal, or used to increase the Available Funds. The Funds Available from Operations would also include any sales

proceeds of existing assets being replaced and Restricted Assets to be applied to asset replacement. Generally, decisions to direct Funds Available from Operations to new, upgraded, or expanded assets would be made after the asset replacement requirements are fully met.

The intent is that the Funds Available for Replacement will be targeted to meet the full cost of asset replacements that are determined to be due for renewal through the Asset Plans.

While the Funds Available for Replacement measure above provides a clear medium term picture, it does not show the full extent of potential underlying issues in Council's longer term financial sustainability. As Council has a large number of assets that are very long lived, it is probable that asset replacement concerns would exceed the 10 year planning horizon. Council's Asset Management Strategy includes a measurement of Long Term Asset Renewal requirements, 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.

The proposed Financial Sustainability position states:

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

Council recognises that estimated renewal values and estimated lives for long lived assets have a degree of variation and/or uncertainty. While it is expected that gaps may be reported through this measure at a point in time, with the medium term measures in place there will be long lead times and many variables that will change before such gaps are realised, providing sufficient time to make planned changes in an orderly fashion without unduly creating unsustainable outcomes.

It is proposed that this would replace the Operating Result [pre capital] as the primary indicator of long term asset financial sustainability. The Operating Result [pre capital] would still be retained as a significant reporting line in both the internal and external Financial Reports but would only be reported as a key performance indicator if mandated by external bodies such as the Office of Local Government or the Accounting Standards Board.

While not new to the Financial Sustainability Policy, it is considered that the Total Funds Result should play a more significant role in the management of financial sustainability. It is recommended in the Policy that this becomes a key financial indicator. The proposed Financial Sustainability position states under the header of Total Funds Result:

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

The Total Funds Result measures all funds allocated and estimated to be earned (or expended and earned for actual results) during a period for operating and capital. This recognises that sustainability 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.

Also included in the current Financial Strategy, but important in closing the sustainability loop for asset management, is the requirement to ensure capital expenditure for new, upgraded, or expanded assets is appropriately considered with a long term focus. The proposed Financial Sustainability position states:

**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.**

This statement, which should be supported in practice through internal controls, requires capital expenditure decisions to be fully informed by understanding the impacts on future results. 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.

In addition to these more significant changes, the proposed Financial Sustainability Policy includes minor changes as follows:

- Update to new Policy template.

- Change 'ratepayer' to 'community' to better reflect accountability to broader stakeholders.
- Removal of 'Funding for the renewal of assets will be applied to asset replacement' as this is controlled through the new statements and measures applied.
- Inclusion of 'to finance investments' as a valid use of borrowings as the existing definitions are considered limiting if Council wished to make investment in activities that required borrowings. This would not include cash investments.
- Removal of 'fees and charges' being ringfenced for West Dapto as we do not have the information to allocate some income such as parking fines, dog registrations and others by area.
- Inclusion of Service Optimisation, to reflect the role that this program may play in future financial sustainability in addition to Service Reviews.
- Addition of legislative reference, reporting, roles and responsibilities and related strategies, policies, and procedures required in new templates.

Other minor administrative or grammatical changes to improve understanding.

## CONSULTATION AND COMMUNICATION

The review has been discussed internally and with Councillors through a workshop on 10 March 2025. It is proposed to place the document on exhibition, and feedback received through the public exhibition period will be reviewed and considered prior to the Policy being reported back to Council for adoption.

## PLANNING AND POLICY IMPACT

This report contributes to the delivery of Our Wollongong Our Future 2032 Goal 4 "We are a connected and engaged community". It specifically delivers on the following:

Community Strategic Plan 2032		Delivery Program 2022-2026	
Strategy		Service	
4.8	Council's resources are managed effectively to ensure long term financial sustainability.	Financial Services	

## FINANCIAL IMPLICATIONS

There are not any direct financial cost implications to implementing this Policy.

## CONCLUSION

Council place the draft Financial Sustainability Policy on exhibition with Council's Integrated Planning suite.



## FINANCIAL SUSTAINABILITY COUNCIL POLICY

ADOPTED BY COUNCIL: [TO BE COMPLETED BY GOVERNANCE]

### 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.

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### 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.



## FINANCIAL SUSTAINABILITY

## COUNCIL POLICY

### 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 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 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 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 (i.e. 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.*

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### 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.



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- 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.*

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### 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.*

## FINANCIAL SUSTAINABILITY

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### 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 Reviews 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

FINANCIAL SUSTAINABILITY

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APPROVAL AND REVIEW	
Responsible Division	Finance
Date adopted by Council	[To be inserted by Corporate Governance]
Date/s of previous adoptions	28 June 2021, 3 April 2017, 17 February 2014, 23 April 2012, 23 June 2009
Date of next review	2029



[POLICY NAME FINANCIAL SUSTAINABILITY]

## COUNCIL POLICY

ADOPTED BY COUNCIL: [TO BE COMPLETED BY GOVERNANCE]

### 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

### OBJECTIVE

The main objectives of this Policy are to:

- 1 Assist Council to use ratepayers' community money, together with other funding available, wisely to provide prioritised services and ensure financial sustainability and asset management.
- 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. ~~Link the policy to Council's strategic plan and deliverables and document what outcomes it hopes to achieve. Give particular focus to any innovation or sustainability objectives the policy hopes to achieve.~~ 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

### POLICY STATEMENT

#### Introduction

Wollongong City Council's Financial ~~Sustainability Policy Strategy~~ 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 Strategy sets the parameters within which Council agrees to operate ~~in order to~~ maintain accepted financial outcomes and should be viewed as an enabling ~~Strategy Policy~~ that aims to provide financial stability, affordability, focused delivery and value for money over the short, medium and longer term.

[NAME OF POLICY] FINANCIAL SUSTAINABILITY

COUNCIL POLICY



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



## [NAME OF POLICY] FINANCIAL SUSTAINABILITY

## COUNCIL POLICY

### 1 STABILITY

#### 1.1 Available Funds

- aa** 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.

*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.*

*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 through-in future programs, within an acceptable timeframe.*

#### 1.2 ~~Operational Result [pre capital]~~

- 1.2a** ~~Council will plan to maintain a small operational surplus [pre capital] (average over three years).~~

*The operating result [pre capital] is considered to be an indicator 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. This indicator includes accounting and engineering estimates relating to the consumption of long-lived assets (depreciation) that are used in determining this result. Council has improved, and will continue to refine, its estimating process to provide greater accuracy of the result. Council will plan based on the best information available.*

#### **b** Asset Management - Replacement

Council will plan ~~for to achieve a Funds Available from Operations for Replacement~~ -at least equal to the estimated cost of replacing costs-Depreciation 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 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.*

[NAME OF POLICY] FINANCIAL SUSTAINABILITY

COUNCIL POLICY

Council's intent from a sustainability perspective is to prioritise Funds Available for 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 ExExpanded tended or Upgraded assets and/or New assets.

Funds Available from Operations is a Wollongong City Council indicator that is considered to be a more reliable indicator of Council's capacity to manage its assets over the longer term. Unlike the Operating Result, it does not include non-cash transactions and excludes transfers to and from funds which are externally or internally restricted (Restricted Assets).

Council's intent is to provide at least sufficient funds from operations for the capital budget to replace assets as they fall due. 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 (i.e. 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 and 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.

~~Council's intent is to provide at least sufficient funds from operations for the capital budget to replace assets as they fall due. The depreciation target is currently used as a proxy for the long-term annual funding requirement to replace Council's assets at their gross replacement value.~~

~~This target does not allow for new assets or the enhancement of assets being replaced. Nor does the target assist in managing the actual timing of replacement based on renewal schedules that may vary significantly from year to year. The delivery planning process will include consideration of enhanced services requiring additional assets and planning for any financing and/or restricted funds movements to manage timing issues.~~

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## 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 Total Funds Result

- ~~a Council's annual allocations to operational and capital budgets will generally not exceed anticipated cash inflows. Where Available Funds level are above minimum requirements, additional funds will be transferred to the Strategic Projects Restricted Asset and consideration given to the allocation of funds through the Strategic Planning process.~~

~~Short term stability requires the annual budget be affordable and cash is 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.~~

### Capital Expenditure

- ~~a Funding for the renewal of assets will be applied to asset replacement.~~
- b In determining the approval of budget for new, extended expanded, or enhanced upgraded ~~additional or enhanced~~ assets, Council will ensure that the whole of life cost is considered and are ~~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.

~~Asset renewal, maintenance and operational costs impacting on future budgets will be included in forecasts as part of the capital budgeting process.~~

~~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 Rrestricted aAssets). Interest on Investment of surplus funds provides additional resource to Council and assists in maintaining the*

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*real value of restricted funds held. Council, in its Investment Policy, carefully weighs up 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 allocationed ~~on a non-recurrent basis~~.

*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 reducediminish. For this reason, it is considered reasonable to allocate apply these funds through the planning process to or one-off operating projects or to capital where ongoing funding obligations capital (or one-off projects) that do not impact ~~owhere~~ future operational 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 and~~ service level, to finance investments, or to provide for timing mismatches in asset renewal replacement funding.

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- 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 to Income Activity Services 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 Strategy 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 Strategy. 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, ~~fees & charges~~ 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 from~~ 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.*

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*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

a 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 Wollongong 2022 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 Capital Delivery

~~a Council will achieve targets for capital renewal by programming these works with sufficient flexibility to allow re-phasing, deferral and/or the introduction of other deferred renewal works as required.~~

~~Council plans for substantial capital works each year. The planned works are in varying stages of maturity when they are adopted by Council and some projects may change in delivery time due to the issues that arise through the planning, community engagement, procurement and delivery phases. Council's financial goal is to endeavour to provide the full value of the annual capital program. This may be achieved, where necessary, by repositioning projects within the agreed four year program.~~

#### 3.32 Grant Funding and other Capital Contributions

a 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?



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- Are we delivering a good customer experience?
- Are our services operating efficiently and effectively to deliver better value?

#### 4.12 Service Reviews

- a 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.

*It is intended that all services be reviewed continually and/or on a cyclical basis over a period of time. During each review of service, the service budget should will be zero based in line with the agreed service levels.*

*Council will deliver procurement savings through improved strategic procurement and collaboration with other authorities and agencies.*

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## 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 Reviews 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 Ppolicy.

## RELATED STRATEGIES, POLICIES AND PROCEDURES

Delivery Program and Operational Plan  
Resourcing Strategy

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APPROVAL AND REVIEW	
Responsible Division	<del>[Name of Division]</del> Finance
Date adopted by Council	<del>28 June 2021</del>
Date/s of previous adoptions	28 June 2021, 3 April 2017, 17 February 2014, 23 April 2012, 23 June 2009
Date of next review	<del>[Not more than three years from last adoption]</del> 2029