Financial guiding principles for Council:

creating a legacy of strong financial management and investment

TOWN OF
WALKERVILLE

The *Financial guiding principles* were adopted by Council in August 2018 as per resolution CNC50/18–19.

The Town of Walkerville **acknowledges** the Kaurna people as the traditional custodians of this land, and respects their spiritual relationship with their country.

The Town of Walkerville **recognises** the generations of stewardship the Kaurna people have provided to this land, and **respects** that their cultural heritage and beliefs are as important today, as they were for their ancestors.

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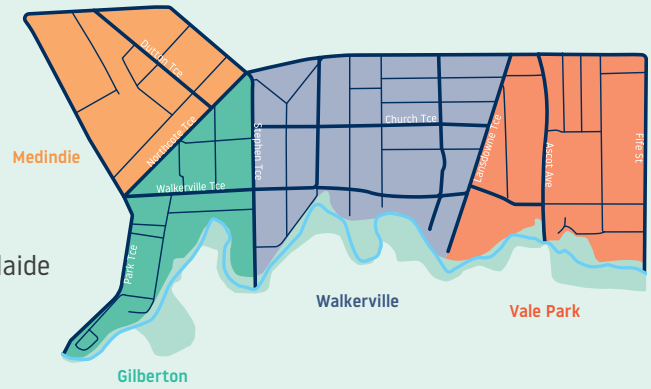
About the Town of Walkerville

The Town of Walkerville is the smallest Council in inner metropolitan Adelaide and covers a land area of 3.5km². The Township is home to almost 8000 residents and remains the only Council in inner metropolitan Adelaide to have retained its 'Town' status.

The Town of Walkerville encompasses the suburbs of Gilberton, Medindie, Vale Park and Walkerville and is located immediately north–east of the city of Adelaide, about 4 kilometres from the Adelaide GPO.

The Town of Walkerville is bordered by the River Torrens, the Adelaide Parklands and residential suburbs to the north and north–east.



Introduction

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

Related strategies and plans:

- *A connected community: the Town of Walkerville urban master plan*
- annual business plans
- long term financial plans
- four year strategic plans.

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

Financial principles are also a useful tool for the community to better understand the process and priorities that sit behind budgets and long term financial plans. With almost 90% of Council revenue drawn from rates revenue, the community has a vested interest in engaging with the setting of annual budgets through the process of public consultation.

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

How can the community benefit from these principles?

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

- long–term financial sustainability, driven by strategic financial plans
- responsible debt management
- improved infrastructure
- maintained independence (no Council amalgamation)
- enhanced 'village' atmosphere and inclusive community
- continued revitalisation of Walkerville Terrace, Main North Road and North East Road
- a level of service and services to the community that exceeds expectations
- a better understanding the community's needs, wants, desires and priorities for services and service levels and matching that to the organisation's capacity to sustainably fund the provision of agreed services
- greater capacity to meet existing and increasing expectations from all areas including community, service users and government
- ensuring future decisions provide affordable long term solutions that are within the financial capacity of the community
- delivering organisational change to improve efficiency and quality of service to the community
- managing any future demands and impacts that are associated with climate change.

What do the principles do?

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

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

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

How do the guiding principles work?

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

- stability
- affordability
- efficiency (i.e value for money).

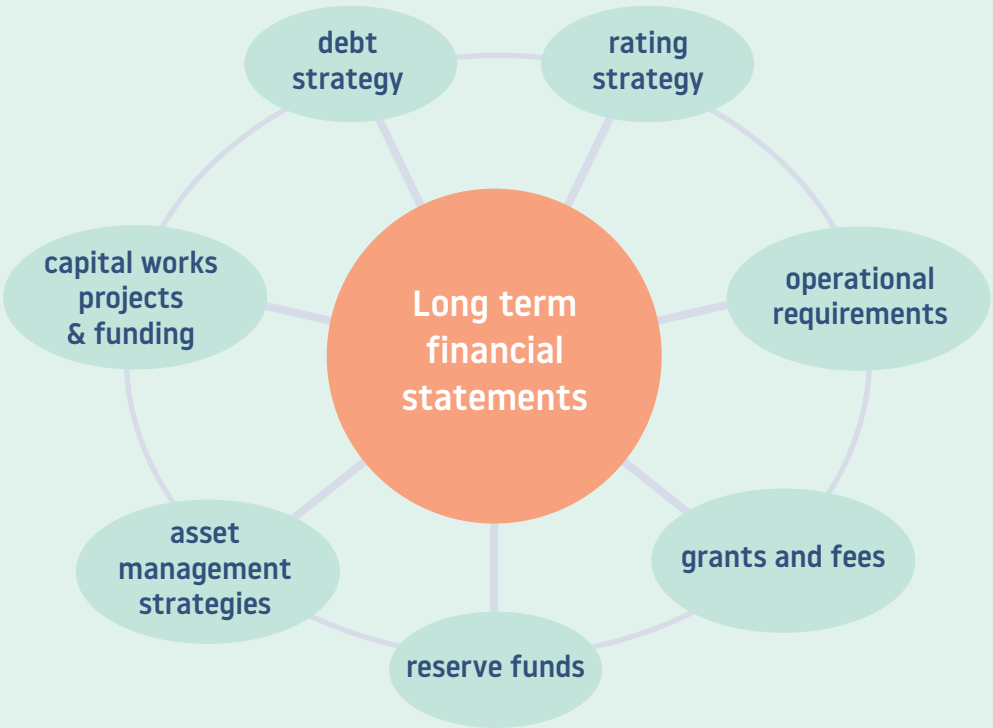
Challenges and opportunities: futureproofing the community

The Town of Walkerville will face new challenges, as well as new opportunities, which call for consistent financial decisions and innovative and community centred solutions.

Some of these key challenges include:

1. addressing Council's medium to long term funding of renewal and maintenance of assets used to deliver our services;
2. meeting expectations from all areas including community, service users and government, by ensuring standards across key services keep pace with demand and in balance with the capacity to fund these operations;
3. financial risk associated with growth and development of new infrastructure and services;
4. demands associated with the management of climate change;
5. increasing costs of some key supplies such as recyclables, energy, bitumen, concrete and labour;
6. addressing additional expectations and demands from government authorities.

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



Financial guiding principles: in detail

Objectives

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

Principles

Principle 1:

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

Council will ensure it only raises the revenue it needs and does so in the most efficient and equitable manner possible. Council will manage community funds according to best practice standards and ensure information regarding its financial management decisions is accessible to the community. Council will consider outsourcing services and activities that can be delivered more efficiently and cost effectively by external providers.

Principle 2:

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

Council will seek to achieve equity across generations by recognising that each generation must pay its way with respect to recurrent expenses being met from recurrent revenue (the full cost of the service it consumes). Council will invest sustainably in community assets to maintain (and potentially enhance) service levels.

Principle 3:

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

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

Principle 4:

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

Council will ensure that robust and transparent processes are in place for the allocation and prioritisation of resources through budgetary decision–making, as well as for choosing the most effective methods for delivering specific services and projects. Strategies will include a vigorous cost–benefit analysis in preparing and assessing proposals.

Council will recognise its service obligations to the Town of Walkerville community in its decision–making.

These four principles are underpinned by the following priorities:

- stability
- affordability
- efficiency (i.e. value for money).

Priority 1: Stability

Maintaining our independence

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

Available funds

Council will aim to maintain access to available funds (the unallocated portion of all future revenues) between 1.5% and 3.0% of operational revenue (pre capital) as part of their *Long–term financial plan* (LTFP). Available funds are funds that Council has earned, but not allocated to recurrent expenditure in future. They are held to use against unanticipated future costs, or can be used to provide flexibility to take advantage of opportunities that may arise. If funds are not required as part of the annual budget process these will be used to reduce rates or reduce debt.

While the available fund balance may fall below the targeted level in a period, the onus in planning is to ensure adequate adjustment is made to restore the balance through future programs, within an acceptable timeframe.

Debt

Councils do not retire, die or have descendants. They are entities that continue in perpetuity and have an income guaranteed by legislation. Therefore community debt needs to be considered in a different light to that of household or business debt. There is no pressing need to repay debt rapidly, rather, that debt should be maintained at serviceable levels.

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. Debt will be considered as part of the capital budget process and will only be approved where there is an agreed economic, social or environmental benefit from a project and other suitable sources of funding are not available.

Current debt levels derive from renewing, upgrading and sustaining Council's assets and is not tied to any particular asset. These are community assets and typically have very long lives i.e. they are intergenerational. Therefore, Council is renewing, upgrading and sustaining intergenerational assets:

- current ratepayers should not be burdened by having to pay for these assets in full now as future generations will enjoy the benefits of those assets.
- debt is a financing mechanism not a funding mechanism.

Council will review the structure of its debt and investments on at least an annual basis. This review will look at interest exposure in relation to risk profile, economic performance and maturity profile where appropriate. Council will not increase loan borrowings (increase debt) beyond its current draw down facility of $9.5m without community consultation.

Operational result (pre capital)

To ensure the Council continues along the path of future financial sustainability, key long–term strategic plans are developed and integrated; demonstrating a strategy to manage the financial implications of its long–term planning. Council will plan to maintain a small operational surplus (pre capital) (average over three years).

The Local Government (Financial Management) Regulations 2011 require a Council to use three specific indicators:

- an operating surplus ratio
- a net financial liabilities ratio, and
- an asset sustainability ratio.

These indicators are to be included in the following:

- long–term financial plan
- annual budget
- mid–year review of the annual budget, and
- report on annual financial results.

The use of these financial indicators and associated targets, as an average over 5 years, have been determined by Council as the following

Ratio	Target
Operating surplus ratio	0–15%
Net financial liability ratio	0–120%
Asset sustainability ratio	90–110%

Operating surplus ratio

The operating result (pre capital) is considered to be one of the main indicators of the long term financial viability of Council. In broad terms, a deficit from operations indicates that Council is not earning sufficient revenue to fund its ongoing operations (services) and continue to renew the assets, which are an integral part of that service, when required. The indicator includes accounting and engineering estimates relating to the consumption of long lived assets (depreciation) which is used in determining this result.

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

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

Net financial liabilities ratio

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

Asset sustainability ratio

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

Asset management

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

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

Council's *Asset management policy* ensures that adequate provision is made for the long–term replacement of major assets by:

- Ensuring that Council's services and infrastructure are provided reliably, with the appropriate quality levels of service to residents, visitors and the environment.
- Safeguarding Council assets including physical assets and employees by implementing appropriate asset management strategies and appropriate financial treatment of those assets.
- Creating an environment where all Council employees will take an integral part in overall management of Council assets (create an asset management awareness throughout Council).
- Meeting legislative compliance for asset management.
  – ensuring resources and operational capabilities are identified and responsibility for asset management is allocated.
- Demonstrating transparent and responsible asset management processes that align with demonstrated best practice.
- Major capital expenditure will only occur after community consultation and prudential review.

Priority 2: Affordability

Available funds

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

Capital expenditure

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

Capital expenditure decisions need to be fully informed by understanding the impacts 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 or demolished. 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.

Rates, fees & charges

Council will review and maintain its rate base to ensure long term financial capability. Rate increases will be calculated using the average December LGPI and CPI in the current year.

Business rating structures and differential pricing between categories will be considered as part of the annual *Rating policy* review.

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

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

Investment of surplus cash

Council funds that are not immediately required for operational needs and cannot be applied to either reduce existing borrowings or to avoid the raising of new borrowings, will be invested with an Australian Bank whose Standard & Poor's credit rating is A or higher or with the Local Government Financing Authority.

Council funds available for investment will be lodged 'at call'. In the case of fixed term investments the term should not exceed a point in time where the funds otherwise could be applied more cost–effectively.

When investing funds Council will select the investment type that delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors. Returns from investments vary significantly from year to year based on interest rates and the level of cash held. For this reason, it is considered reasonable to apply these funds to capital (or one–off projects) that do not impact on future operational costs. It is also important to understand that predicted future returns may not be realised and funding may not be available as expected.

Council management may from time to time invest surplus funds in:

- deposits with the Local Government Financing Authority
- bank interest bearing deposits
- any other investment requires the specific approval of Council.

Grant funding and other capital contributions

Council will actively pursue funding and other contributions to assist in the delivery of core services. Operational grants and contributions for specific purposes currently provide around 3.5% of Council's revenue (pre capital).

Continued effort in obtaining and improving Council's success in targeted grant funding is vital to future performance and stability.

Priority 3: Efficiency – value for money

Utilisation of Council's assets

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

The Town of Walkerville possesses many valuable assets such as land, parks and facilities. Council will create and facilitate access to diverse sustainable leisure, recreation and sporting facilities and programs that are safe for people of all ages and abilities. These assets can generate an opportunity in providing greater access and value to the community.

Service reviews

Council will maintain an ongoing review of its services that seeks to better define service requirements, refine delivery methods and balance service aims against affordability for both the Council and residents. Council will consider new and better ways of going about its business in the achievement of its goals, through innovation; which will be assessed critically by using appropriate risk management and other analysis. It is intended that all services be reviewed on a cyclical basis over a period of time. During each review of service the service budget 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.

In order to provide the best value to the community, the Council will leverage the expertise of outside partners where appropriate. The most efficient and effective forms of service delivery will be considered by Council, including partnerships with other entities that align with objectives and priorities. This is to ensure that the resources within the community, or neighbouring councils, are leveraged to provide the best value.

In–house delivery versus external contract

Understanding both the incremental and full cost of service delivery is vital to making decisions on what is the most cost–effective method of service delivery. It is critical to use a consistent approach to analyse the available service delivery options. In particular, understanding how the elements of the full cost that may change if an external contractor is used to deliver the service enable a range of issues to be explored. For example:

- What will the costs to supervise a contractor be compared to supervision of in house service delivery?
- What additional costs will be incurred in switching to external service delivery – staff redundancies, early disposal of plant etc?
- In the short–term, what costs will not be avoided, e.g. staff not redeployed?
- Are there implications for overhead allocation for other services?
- If external service delivery proves unsatisfactory will there be the capacity (skills, re–acquisition of plant, etc.) to return to in–house service delivery?
- Opportunity costs – e.g. cost of capital?

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

Benchmarking

Analysing performance is important to ensure that the community is getting value for money from their Council. Benchmarking is a tool which is often used to consider how an organisation is functioning compared to others. Benchmarking with an understanding of service delivery highlights those areas where Walkerville is best placed in service delivery for its community and those areas that would be better outsourced or undertaken regionally.

The objectives of a performance evaluation is to:

- enhance measurable approaches and techniques
- help Council identify where there is scope for improvement
- promote greater transparency and inform debate about comparative performance.

Council will analyse performance using benchmarking every two years to assist with determining if services are at an acceptable level and are value for money. Below are the areas which have been identified as critical measures for benchmarking.

Financial

- adjusted operating surplus ratio
- net financial liabilities ratio
- revenue and expenditure growth
- rates
- grants
- own source income
- business undertaking (leased premises)
- employees

Governance

- transparency
- accountability
- Ombudsman complaints
- Elected Member responsibilities

Asset management

- asset sustainability ratio
- renewal
- building assets

Service delivery

- expenditure per service

Staffing establishment levels

Workforce planning will be considered during the development of annual budgets and the financial impacts of the workforce plan captured within the *Long term financial plan*. The combination of workforce and financial constraints will influence the prioritisation of projects within the *Long term financial plan*. Council will ensure that adequate workforce management and resource strategies are in place to ensure the delivery of objectives, outcomes and strategies of *2016–2020 Living in the Town of Walkerville; a strategic community plan; 2016–2020 Living Walkerville: wellbeing for every age and stage strategy* and *A connected community: the Town of Walkerville urban master plan*.

The Financial guiding principles in action: check list

To assist Council in applying the financial principles, this checklist will be adopted to ensure that all decisions regarding the allocation and management of Council resources adhere to these agreed principles. In essence, the checklist provides a practical 'tick box' ensuring that decisions of Council are consistent with the principles outlined in this document.

Priority 1: Stability Related principle	Measure	**Included** Y/N
3,4	Council will aim to maintain available funds between 1.5% and 3% for unanticipated future cost in the LTFP.	☐
2,3	Council will only use debt financing to fund capital expenditure.	☐
2,3	Council will not increase loan borrowing beyond its current draw down facility of $9.5m without community consultation.	☐
1,2,3	Council will plan to maintain a small operational surplus (average over three years).	☐
2,3	Operation surplus target 0–15%.	☐
2,3	Net Financial liability ratio target 0–120%.	☐
2,3,4	*Long term financial plan* and *Asset management plan* is reviewed annually.	☐
Priority 2: Affordability Related principle	Measure	
1,2,3	Operational and capital budgets will not exceed anticipated cash flows.	☐
1,2,3	Operational cost are considered together with capital projects.	☐
2,3	Rate increases will be in line with the average of the December LGPI and CPI of the current financial year.	☐
1,4	Council will actively pursue funding and other contributions.	☐
Priority 3: Efficiency – Value for money Related principle	Measure	
1,4	Council will maintain an ongoing review of services.	☐
1,4	Staffing establishment levels are in line with workforce plans and delivery of outcomes.	☐
1,4	Benchmarking completed every two years.	☐
1,4	Return on assets are used to reduce the burden on ratepayers.	☐