

# Kyogle Council

## Financial Management

### Policy



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## 1. OBJECTIVE

The purpose of this policy is to establish a framework for the establishment and ongoing management of Cash Reserves, and to establish key performance indicators and targets for measuring long term financial sustainability.

## 2. VALIDITY

This policy gains its validity from Council Resolution Number

## 3. BACKGROUND

Reserves are established to set aside funds for Council to allocate to specific projects as required.

This policy defines parameters in relation to current reserves which set out the purpose of the reserve, the basis of calculating transfers to and from the reserve and target balance for the reserve.

A Council's long term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

This policy defines the key performance indicators to be used to report on and measure Council's long term financial sustainability.

## 4. EXTERNAL RESERVES

In accordance with section 409 of the *Local Government Act 1993*, pending its expenditure for the purpose for which it is held, the following kinds of funds must be held in an account with a bank, building society or credit union or in an investment in which such money is, by or under this or any other Act, authorised to be invested.

- money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, and
- money that is subject to the provisions of this or any other Act (being provisions that state that the money may be used only for a specific purpose) may be used only for that purpose, and
- money that has been received from the Government or from a public authority by way of a specific purpose advance or grant may not, except with the consent of the Government or public authority, be used otherwise than for that specific purpose.

## 5. INTERNAL RESERVES

The following details the authorised internally restricted reserves that may be held by Council. The level of internal reserves held (and the ability to meet the target balances) will be dependent upon each years operating results and overall financial position, and the Long Term Financial Plan adopted by Council.

Note: Interest from investments is not applied to internally restricted reserves.

### **5(a) Employee Leave Entitlements**

#### Purpose

To ensure that adequate funds are available to finance employee leave entitlements such as long service leave, annual leave and time in lieu.

#### Calculation Basis

Transfers to and from the Reserve will be based upon projected end of year liabilities relating to employee entitlements. The calculation of such liabilities takes into consideration the anticipated timing of ELE payments based upon a number of factors, including the age of employees and likely proximity to retirement.

Where an employee enters upon extended leave prior to retirement, he/she may be replaced with any unbudgeted salary payments being met from the Internally Restricted Asset.

#### Target Balance

Minimum of 100% of Employee Leave Entitlements for Long Service Leave

### **5(b) Buildings and Other Structures**

#### Purpose

To provide for the acquisition and replacement of assets and infrastructure in the future by Council.

#### Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, projects identified in Council's Community Strategic Plan and Long Term Financial Plan.

#### Target Balance

No minimum amount; target balance is that required to fund the following year's projected expenditure from the Long Term Financial Plan.

### **5(c) Plant Replacement**

#### Purpose

To ensure adequate funds are available to purchase a responsive and modern plant fleet at the optimum replacement point

#### Comment

Council currently operates a fleet that is generally reliable, with stable maintenance costs, and all plant items are covered by insurance with replacement at market value.

The existence of an economic fleet has come about through annual allocations that has enabled an appropriate Fleet Replacement Program to be implemented.

#### Calculation Basis

Transfers to and from the Reserve are based upon:

- i) Plant operating results

- ii) Plant depreciation
- iii) Plant purchases as per the approved Plant Replacement Schedule
- iv) Profit/loss on sales of plant

Plant Hire rates are to be calculated having regard to operating costs and provision for future replacement as well as external rates for equivalent items of plant.

Funds will only be transferred to this reserve when Council is reporting a positive operating position.

As the majority of the income earned by this reserve is generated from plant hire on Council roadworks, and in delivering Council functions such as parks and gardens, community buildings, cemeteries and the like. Surplus operating funds may be made available to fund works on roads and bridges and other functions in proportion to the level of plant income derived from each function.

#### Target Balance

Council's aim is to ensure that not any of its plant is older than ten years. Plant items (depending upon size and use) are generally sold/replaced from 2-10 years. It is estimated that over the entire fleet, the average changeover period is 5 years.

The net surplus from plant generally covers the cost of capital replacements for that year. The Long Term Financial Plan includes projected plant replacement costs over the period of the plan, based on the service level targets.

The minimum reserve balance is \$500,000; target balance is that required to fund the following year's projected expenditure from the Long Term Financial Plan.

#### **5(d) Carryover Works (Revotes)**

##### Purpose

To ensure that significant projects funded in a particular year but not started or completed in that year will be able to be completed in subsequent year(s).

##### Calculation Basis

Transfers to and from the Reserve will be based upon the difference between amounts allocated and those spend on major projects.

##### Target Balance

The amount of funding for significant projects that remains unspent is to be carried over into the subsequent year

#### **5(e) Quarries**

##### Purpose

To ensure that sufficient funds are available to meet rehabilitation costs and costs associated with developing additional/replacement material supplies.

##### Calculation Basis

Transfers to and from the Reserve will be based upon the anticipated rehabilitation costs and the expected timing of the required works and the need for replacement or additional material supplies.

##### Target Balance

The target balance is at least equivalent to the quarry rehabilitation reserve liability.

### **5(f) Transport Operations**

#### Purpose

To provide a quasi self-insurance for contract transport works, should the cost of contracts exceed the level of contributions received, and to provide sufficient funds to allow commencement of urgent works when instructed by the Roads and Maritime Services.

#### Calculation Basis

Transfers to and from the Reserve will be based upon the operating results achieved by Council's contracted transport works.

#### Target Balance

The target balance is a minimum of \$250,000.

### **5(g) Information Technology**

#### Purpose

To provide funds to ensure that Information Technology and Communication (ITC) assets are replaced and/or enhanced within the correct economic cycle.

#### Calculation Basis

Transfers to and from the Reserve will be based upon the anticipated replacement timetable for ITC assets and the Asset Management Plan.

These funds are not to be used to support the ongoing maintenance requirements of the asset base.

#### Target Balance

No minimum amount; target balance is that required to fund the following year's projected expenditure from the Long Term Financial Plan.

### **5(h) Roads and Bridges**

#### Purpose

- To provide a level of funding to:
- Enable projects identified in Council's developer contributions policies to be carried out as necessary
- Enable self-help projects to be carried out as necessary
- Take advantage of government grants that may come available from time to time (e.g. Timber Bridge Project)

#### Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, Long Term Financial Plan, and anticipated future development and the level of funds available.

#### Target Balance

Minimum of \$1,000,000; target balance is that required to fund the following year's projected expenditure from the Long Term Financial Plan.

### **5(i) Emergency Works**

#### Purpose

To fund emergency and repair works as a result of an unforeseen event e.g. natural disaster and carry out emergency repairs/replacements.

Calculation

Transfers to Reserves are based on achieving the target balance.

Transfers from Reserves are calculated on cleanup and repair costs, not exceeding the available balance of the Reserve.

Target Balance

\$500,000

**5(j) Stormwater Management**Purpose

To provide a level funding to enable identified major stormwater and flood mitigation works to be carried out.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, Long Term Financial Plan, and funding received from Stormwater Management Charges and the level of funds available.

Target Balance

No minimum amount; target balance is that required to fund the following year's projected expenditure from the Long Term Financial Plan.

**5(k) Commercial Waste**Purpose

To provide a level funding to enable rehabilitation works and upgrades and/or enhancements to be made at Councils landfill and transfer station sites.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, anticipated timing and cost of rehabilitation works and future requirements.

Target Balance

The target balance is at least equivalent to the Commercial Waste Fund share of waste facility rehabilitation reserve liability.

**6. FINANCIAL SUSTAINABILITY INDICATORS**

The following key performance indicators and targets have been established to provide a path towards long term financial sustainability and to measure performance against the relevant targets as part of the annual reporting process. These ratios are to be included as part of the preparation of Council's Long Term Financial Plan, and are detailed in the Table below.

Key Performance Indicator	Benchmark
<b>Operating Performance Ratio</b> = Net continuing operating result (excl capital grants and contributions) as a % of total continuing operating revenue (excl capital grants and contributions)	Greater than or equal to breakeven average over 3 years

<b>Own Source Revenue</b> = total continuing operating revenue (excl all grants and contributions) as a % of total continuing operating revenue (incl capital grants and contributions)	Greater than 60% average over 3 years
<b>Debt Service Ratio</b> = Cost of debt service (interest expense and principal repayments) as a % of total continuing operating revenue (excl capital grants and contributions)	Greater than 0% and less than or equal to 20% average over 3 years
<b>Building &amp; Infrastructure Asset Renewal Ratio</b> = Asset renewals (building and infrastructure) as a % of Depreciation, amortisation and impairment (building and infrastructure)	Greater than 100% average over 3 years
<b>Infrastructure Backlog Ratio</b> = Estimated cost to bring assets to satisfactory condition as a % of total written down value of infrastructure, buildings, other structures, depreciable land, and improvement assets	Less than 2%
<b>Asset Maintenance Ratio</b> = Actual asset maintenance as a % of required asset maintenance	Greater than 100% average over 3 years
<b>Real operating expenditure per capita</b> = Operating expenditure as a % of Population	A decrease in Real Operating Expenditure per capita over time

Table 6 – Financial Sustainability Key Performance Indicators

All financial terms used in Table 6 have the meaning given in the NSW Department of Local Government, *Local Government Code of Accounting Practice and Financial Reporting*