Introduction to the Financial Strategy

Strategic Planning and Policy Committee - 3 August 2017
Today

• Introduction
• Legal Requirements
• Must haves
• Key issues
• Key decisions
• Where to from here?
It’s only 22 pieces!
Financial Management Required by Legislation

Local Government Act 2002

- Prudence and Sustainability [s101]
- Financial Strategy [s101A]
- Balanced Budget [s100]
- Funding and Financial Policies [s102-110]

Not just a legislative requirement - good business practice
### Financial Management Principles

<table>
<thead>
<tr>
<th>INTEGRATION</th>
<th>Financials, asset information and policy decision tell a single consistent story</th>
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</thead>
<tbody>
<tr>
<td>SUSTAINABILITY</td>
<td>Rates are affordable and service levels can be maintained</td>
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<tr>
<td>ROBUSTNESS</td>
<td>Complete, accurate and based on the best information available</td>
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<tr>
<td>CLARITY</td>
<td>Understandable to the reader</td>
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<tr>
<td>TRANSPARENCY</td>
<td>What, Why and How</td>
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**CREATING THE RIGHT DEBATE**
Purpose of a Financial Strategy

• Facilitates **prudent financial management** by providing a guide to consider proposals for expenditure and appropriate funding mechanisms

• Provides a **context for consultation** by making the overall effects of the expenditure and funding decisions on services, rates, debt and investment **transparent**
Connections

FINANCIAL STRATEGY
Telling a consistent story

- Economic, Social, Environmental Trends
- Future Growth
- Legal Framework
- Strategic Direction
- Activity Mgt Plans
- Infrastructure Strategy (30 years)
- Asset Mgt Plans
- Levels of Service
- Assumptions
- Council Vision and Outcomes
- Other Policies and Plans

Connections between strategies and plans.
Must haves

• Factors that are expected to have a significant impact including
  • Population changes and the cost of these changes
  • Changes in land use in the district and the cost of these changes
  • Capital expenditure to maintain existing levels of service
  • Factors limiting our ability to provide for the existing levels of service

• Quantified limits on rates, rate increases, and borrowing
Must haves cont...

• An assessment of our ability to provide and maintain existing levels of service and to meet additional demands for services within the limits set

• Policy on the giving of securities for borrowing [Borrowing Management Policy]

• Objectives for holding and managing investments and quantified targets for returns on those investments [part of Investment Policy]
Key Issue – Intergenerational Funding

• Significant portion of levels of service relate to the ownership of long life assets.

• Must take into account the impacts on both the current and future community’s interest

• Essential in determining relevant levels of service and funding options
Key Issue - Affordability

- Key driver behind legislative change requiring a Financial Strategy
- Now a key benchmarking measure

- What are acceptable levels of rates?
- What are acceptable rate increases?
- How much should Council borrow and commit future ratepayers to?
Types of Expenditure

• **Operational Expenditure (Opex)**
  Day to day costs associated with providing a service. Includes interest on capital expenditure and depreciation

• **Capital Expenditure (Capex)**
  Expenditure that creates an asset that will provide a service for more than the current financial year
Types of expenditure cont...

- **Renewals Expenditure**
  To replace or refurbish existing assets to bring asset back to the original service potential

- **New Capital Works**
  Capital expenditure to invest in additional assets and improvements in levels of service

- **Growth Expenditure**
  Capital expenditure to meet additional demands as a result of growth in population and business activities
## Funding mechanisms available

<table>
<thead>
<tr>
<th></th>
<th>Operating Expenditure</th>
<th>Renewal Expenditure</th>
<th>New Works</th>
<th>Growth Works</th>
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<tbody>
<tr>
<td>User pays fees and charges</td>
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<tr>
<td>Subsidies and grants</td>
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<tr>
<td>Interest and dividends</td>
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<tr>
<td>Rates (including Targeted Rates)</td>
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<tr>
<td>Capital contributions</td>
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<td>Development contributions</td>
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<td>Funding from prior or future years’ funds</td>
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<td>Loan funding</td>
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Debt Levels

• Required to quantify borrowing limits

• To consider financial prudence and affordability

• Currently based on the lower of
  - interest as a % of revenue (max 10%)
  - interest as a % of rates (max 20%)
  - debt as a % of total assets (max 15%)
  - net operating cashflow more than 15% of interest

• Makes an allowance for emergency expenditure
Current borrowings

- Debt Cap
- Proposed Debt LTP
- Revised Debt in Annual Plan
- Actual Debt


$ millions: 40, 50, 60, 70, 80, 90, 100

Graph showing the comparison of different debt categories over the years.
Rates Increases and Limits

• Current Increase
  LGCI + 4% (excl increase in levels of service)

• Current limit
  Upper limit of targeted rate increases + 75% of forecasted growth
Telling our Story

- Issues
- Principles
- Text boxes
- Examples, definitions
Where to from here?

- Re-familiarise yourself with the strategy
- Any changes to underlying policies
- Determine limits and policies
- Determine levels of service (LOS)
- Prepare asset management plans (AMP)
- Prepare budgets based on LOS/AMP/Activity management plans
- Can we afford it?