Financial Management Strategy

2023-2032

GLENORCHY CITY COUNCIL

Introduction

The Financial Management Strategy (FMS) provides the Glenorchy City Council (Council) with a strategic framework to guide the development of annual budgets and preparation of long-term financial planning. The FMS has been prepared in accordance with section 70A of the *Local Government Act 1993* supported by section 6 of the *Local Government (Content of Plans and Strategies) Order* 2014 which states a financial management strategy of a Council is required to include the following matters:

a) an overview of the purpose and intent of the strategy;
b) the financial principles that are to guide the determination of the financial management strategies;
c) the key financial management strategies that are to be employed;
d) the financial aims and targets of the council.

The key objective of the FMS is to ensure that Council can sustainably fund the ongoing delivery of services whilst implementing the objectives identified in the Strategic Plan. Financial sustainability can be defined as follows :

'a Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards as prioritised through community engagement and consultation are met without unplanned increases in rates and charges or disruptive cuts to services.'

Financial sustainability at Council means that:

'Glenorchy City Council plans and makes decisions so that appropriate services and infrastructure, as determined through community engagement and consultation, are provided at acceptable service levels – to current and future generations – having regard to the level of rates or other funding required to maintain acceptable service levels.'

The FMS provides the framework from which Council will achieve the aims set out in its Long-Term Financial Management Plan (LTFMP). The key objective of the LTFMP is the achievement of financial sustainability in the medium to long term whilst achieving Council's strategic objectives and meeting community expectations.

In committing to a financially sustainable future, no policy or other decisions will be made without considering the long-term financial impact of those decisions.

The LTFMP provides a tool for Council to consider the financial impact of its decisions on Council's future financial sustainability. It includes consideration of cost increases: employee related costs, materials and services and other operating costs; and revenue increases: rates, user fees and charges, operating grants and other fees and charges.

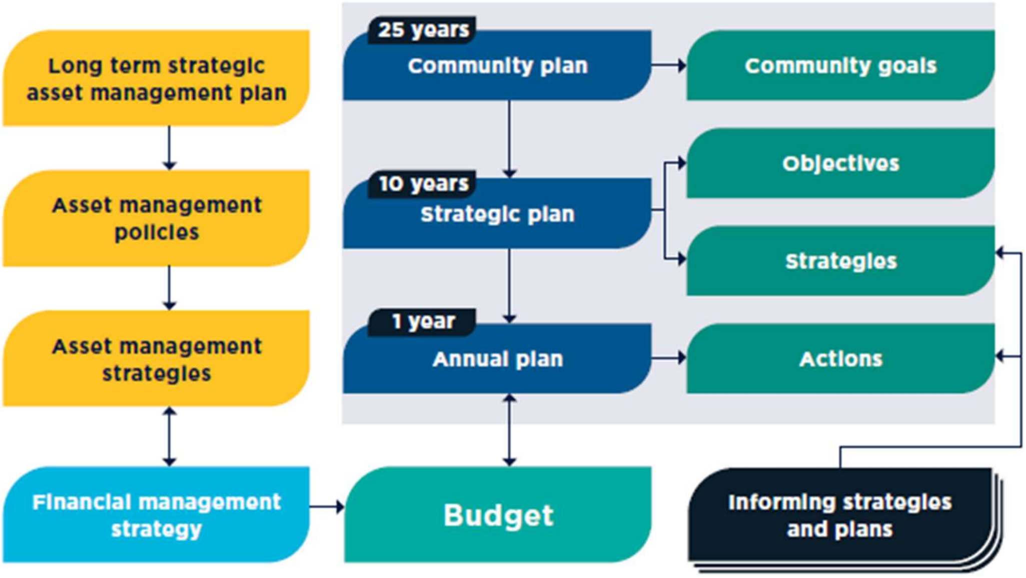
The LTFMP is aimed at:

- moving away from an annual budget focus, towards a long-term financial planning process (and budgetary framework) where the future cost or lost opportunity that may arise from short-term decisions can be identified;
- adopting a 'whole of council' perspective to enable continuous improvement of our asset management and financial management practices, and to set targets for future longer termimprovement;
- maintaining stable and predictable rates increases;
- maintaining effective financial governance through the setting of appropriate long-term financial targets that enable the assessment of emerging challenges or opportunities that impact the Council's long-term financial sustainability; and
- establishing accountability through the setting of long-term financial sustainability indicators, and the monitoring of their achievement.
- incorporating changes in strategic and operational risks for the management of financial resources within the Council's Risk Management Framework each year.

Integrated planning and reporting framework

Long term financial planning is a key element of the integrated planning and reporting framework. The LTFMP demonstrates Council's long term financial sustainability, allows early identification of financial issues, shows the linkages between specific plans and strategies and enhances the transparency and accountability of the Council to the community.

Councils strategic planning processes involve a series of plans which help Council to put the Community's vision into action:



Community Plan

The City of Glenorchy Community Plan 2015-2040 was based on extensive consultation with the community and reflects the community's long term vision for the municipality. The Community Plan guides all other plans in the City, and drives the specific actions, details and measures contained within the plans to ensure the community vision is achieved.

Strategic Plan

Council's ten year Strategic Plan contains the objectives and strategies that Council will follow to achieve the community's vision and goals as expressed in the Community Plan. This is a key document for Council to track and report on progress to the community.

Strategic Asset Management Plan

The Strategic Asset Management Plan (SAMP) takes the organisational objectives in the Strategic Plan and develops the asset management objectives, principles, framework and strategies required to achieve our organisational objectives.

Annual Plan and Budget

The strategies identified in the Strategic Plan shape the actions that Council undertakes each year through the Annual Plan. The Annual Plan is used to frame the budget over a four year period so that Council resources are allocated to community priorities.

The annual budget includes the objectives and intent of the projected costings of the Annual Plan actions. This information is input to the LTFMP and projected at a summary level over out-years using a range of assumptions. The data generated through this process is then utilised to update the LTFMP.

Management and Review

The FMS is a guiding document to consider when developing budget estimates, rather than a document that is dictating future decisions of Council. The long-term financial estimates generated by the FMS will be revisited and updated regularly to reflect any strategies that arise from the Council planning process.

Council will manage the FMS through the annual planning process, updating and maintaining the ten year LTFMP and indicators, and the budgeting process. This will ensure that planned long- term service and infrastructure levels and standards are met without a need to unexpectedly increase rates and charges or reduce services.

Financial Management Principles

These principles serve to guide Council in setting the financial management strategies.

Principle 1

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

Council will endeavour to only raise needed revenue and will do so in an efficient and equitable manner.

Council will manage community funds according to best practice standards and ensure information regarding its financial management decisions is accessible to the community.

Principle 2

Council will maintain a vision of ongoing sustainability so that the wealth enjoyed today may also be enjoyed by future generations

Council will endeavour to achieve equity across generations by recognising each generation must pay its way.

Council will invest sustainably in community assets to maintain 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.

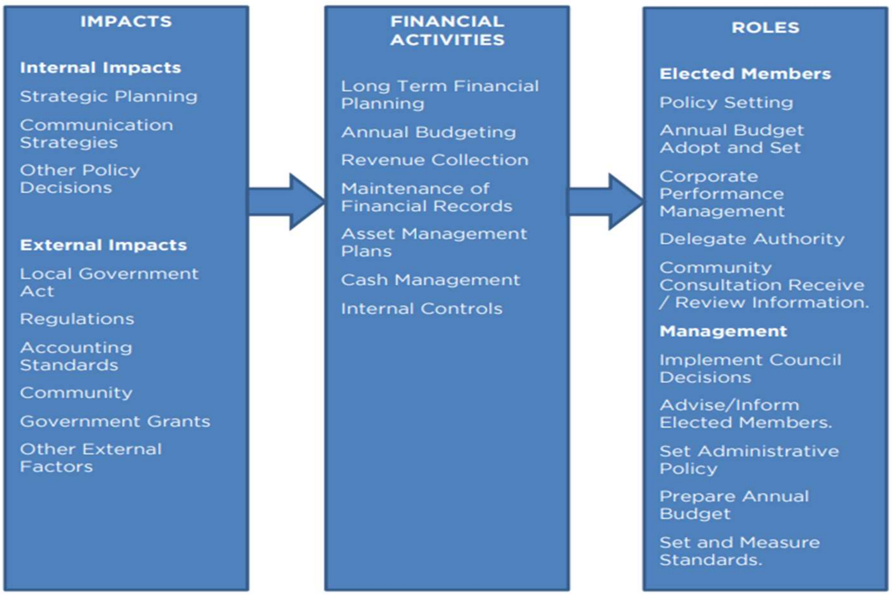
Principle 4

Resources will be allocated in a transparent and equitable manner.

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.

Financial Management Strategies

The FMS is an important part of the overall financial management activities of Council. The following table demonstrates the context within how this document fits into the overall financial management framework of Council.



The following financial strategies portray the strategic direction in which Council's financial decisions are based including borrowing, infrastructure, and service delivery. Specific financial strategies which should be noted include:

Community and Strategic Plan

The community and strategic plans, by their nature, are visionary and are translated into tangible actions through the Annual Plan. As such, the Financial Management Plan does not need to include specific references to the objectives as they are already referenced through the Annual Plan. The nature of the actions required under the community and strategic plans direct where expenditure is targeted rather than materially impacting the total quantum of expenditure.

Rating Strategy

Rates revenue represents the largest share of total income that Council generates each year and therefore is an important component of the financial planning process. Rates represent a property tax levied on the basis of the Assessed Annual Value (AAV) as set by the Valuer-General.

Council will levy a General Rate with a minimum amount payable. A council, by absolute majority, may declare that the general rate varies within the municipal area or within different parts of the municipal area according to any or all, or a combination of any or all, of the following factors:

a) the use or predominant use of the land;

b) the non-use of the land;

c) the locality of the land;

d) any planning zone;

e) any other prescribed factor.

Council will have regard to the impact General Rates have on the Long Term Financial Management Plan when setting the level of rates.

Council will administer the Council Rates Concession scheme on behalf of the State Government, which provides a rates remission to eligible ratepayers pursuant to the *Local Government (Rates and Charges Remissions) Regulations* 2014

Council will maintain appropriate and easy to access Financial Hardship assistance measures to assist ratepayers with their rate accounts.

Rating Strategy Fundamentals

- General rates will be levied on basis of AAV
- Differential rates and a minimum rate will be applied
- Concessions and financial hardship relief will be granted to eligible ratepayers
- Administration of General rates will be governed by the Rates and Charges Policy
- Total rates to be levied will have regard to the LTFMP

Fees and Charges Strategy

Council maintains a register of fees and charges in accordance with section 206 of the *Local Government Act* 1993. The fees and charges contained in the register are reviewed each year as part of the annual budget deliberations. Fees and charges will be increased annually by a minimum of the Consumer Price Index (CPI) except those categorised as Legislated, Agency or Council which are set independent of this strategy.

When determining the level of fees and charges, Council will have regard to the user pays principle and where possible recover the full cost of operating or providing the goods and services in accordance with National Competition Policy guidelines.

Fees and Charges Fundamentals

- Minimum increase of CPI for fees and charges
- Exception for fees categorised as Legislated, Agency or Council which are subject to independent approval
- Full cost recovery to be adopted where possible

Other Revenue Strategy

Other significant revenue streams include investment income from dividends and grant revenue.

As at 30 June 2023 Council holds a 9.61% equity investment in Tasmanian Water Corporation (TasWater). As part owner of TasWater, Council aims to ensure that future entitlements are maintained.

The main source of grant revenue is from the State Grants Commission (SGC) in the form of the Financial Assistance Grant (FAG). This is distributed as Base and Road component with the methodology being reviewed every 3 years. Council has little control over how the FAG funding is distributed across Local Government.

Council will continue to review all operational and capital funding opportunities and identify and apply for appropriate grant funding.

Other Revenue Fundamentals

- Proactively engage with TasWater
- Explore external grant funded opportunities

Expenditure and Service Delivery Strategies

Council will consistently review service levels and delivery to ensure they are delivered as efficiently as possible and continue to meet the needs of the community. Council is focussed on developing a cost management culture across the organisation, encouraging all managers to be involved in minimising costs through the budget process and involvement with ongoing monitoring, reporting and forecasting processes.

At each budget cycle Council will consider the feedback received from the community through the various engagement opportunities to assess any potential changes to services. New strategies developed through the year and the corresponding additional expenditure required, will be considered through the budget process.

Council will comply with its Code for Tenders and Contracts to ensure that expenditure is subject to the appropriate controls and represents the best value available.

Expenditure and Service Delivery Fundamentals

- Minimum increase of CPI for day to day operational expenditure
- Agreed service levels to be delivered as efficiently as possible
- Expenditure to be managed through accountability, reporting and monitoring
- Expenditure in accordance with Council's Code for Tenders and Contracts

Investment Strategy

Cash reserves will be managed to achieve optimum investment returns and to ensure that cash is available when needed for planned expenditures. Council will utilise the cash flow projections contained in the LTFMP to assist in the management of cash and investments.

Investment management is undertaken in a manner that seeks to ensure the security of the investment portfolio. The General Manager has the authority to undertake investments up to a limit of 360 days maturity in an authorised investment. Prior Council approval is required for any investments in excess of 360 days maturity. Funds will only be placed with institutions which have a Standard and Poors short term rating of ‘A1’ or above, or a long term rating of ‘A-’ or above.

All investments will be in accordance with the Investment of Short Term Funds Policy.

Investment Fundamentals

- LTFMP cash flow projections to be used to manage cash
- General Manager authorises investments less than 360 days maturity
- Council approves investments greater than 360 days maturity
- Funds to be placed with institutions which have a Standard and Poors rating A1 or A-
- All investments are in accordance with the Investment of Short Term Funds Policy

Debt Strategy

Council is dependent on a large investment in infrastructure assets to deliver its service objectives and is mindful of intergenerational equity in generating revenue to offset service costs.

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 aims to achieve an operating break even position. This means that on average over time it will generate sufficient funds to offset consumption of existing assets (through its depreciation expense). On average over time it will have sufficient capacity to accommodate asset renewal requirements without the need to raise additional borrowings.

Council will consider the use of debt facilities to fund major new capital expenditure which provides benefits to ratepayers into the future. Where possible, Council will assess the term of the debt in relation to the life of the asset. The use of debt in this manner attempts to address the issue of inter-generational equity.

When considering new debt, Council will evaluate the impact of borrowing costs and future operating expenditure on the sustainability of current and future budgets and its capacity to repay the debt. Thought will be given to the structure of the funding arrangement with the overall aim of minimising interest rate exposure and borrowing and administrative costs. When borrowing, Council will raise all external debt at the most competitive rates and from authorised borrowing institutions with a minimum long term Standard and Poors credit rating of 'A'.

Council will utilise the cash flow projections contained in the LTFMP to assist in the management of debt and cash reserves. When surplus funds exist over and above the finances required to cover Council's normal operations, working capital needs, and cash funded reserves, the General Manager may make a recommendation to Council to redeem borrowings. The decision to redeem borrowings will be made based on the facts available at the time the surplus funds are available, giving due regard to minimising the overall cost to the Council.

Debt Management Fundamentals

- Debt to be considered to fund major new capital expenditure
- Term of debt to be assessed against the life of the asset
- Borrowing costs to be evaluated and the impact on LTFMP to be considered
- Debt to be sourced from borrowing institutions with a minimum long term Standard and Poors credit rating of A
- General Manager may make a recommendation to Council to early repayment where surplus funds exist

Asset Management

To ensure the long-term financial sustainability of Council, it is essential to balance the community's expectations for services with their ability to pay for the infrastructure assets used to provide the services. Maintenance of service levels for infrastructure services requires appropriate investment over the whole of the asset life cycle.

To assist in achieving this balance, Council aspires to develop and maintain asset management governance, skills, process, systems and data in order to provide the level of service the community need at present and into the future, in the most cost-effective and fit for purpose manner.

Broadly, asset management involves the development and delivery of a:

- Strategic Asset Management Plan;
- Asset Management Policy; and
- Asset Management Improvement Plan.

Strategic Asset Management Plan

The Strategic Asset Management Plan (SAMP) takes the organisational objectives in the Strategic Plan and develops the asset management objectives, principles, framework and strategies required to achieve our organisational objectives. The SAMP seeks to ensure the maintenance and sustainability of our infrastructure assets. Our goal is to maintain an average score of 3, indicating a fair condition, for these assets within the next 30 years, utilising our existing financial resources.

Asset Management Policy

This policy sets out the guidelines for implementing consistent asset management processes throughout the Glenorchy City Council. Its aim is to ensure that adequate provision is made for the management of Council's assets at the lowest whole of life costs for the defined level of service by:

- ensuring that Council's services and infrastructure are provided in a sustainable manner with the appropriate levels of service to the community and the environment;
- safeguarding Council assets by implementing appropriate asset management strategies and committing appropriate financial resources for those assets;
- creating an environment where all Council employees play an integral part in overall management of Council assets by creating and sustaining asset management awareness throughout the organisation by way of mentoring, training and development;
- meeting legislative requirements for asset management;
- ensuring resources and operational capabilities are identified and responsibility for asset management is allocated; and
- demonstrating transparent and responsible asset management processes that align with demonstrated best practice.

Asset Management Improvement Plan

The asset management plans demonstrate responsive management of assets (and services provided from assets), compliance with regulatory requirements, and to communicate funding needed to provide the required levels of service.

Individual Asset Management Plans have been created for each asset class. Information from the individual asset management plans are integrated into the LTFMP.

To ensure compliance with relevant legislative requirements and contemporary asset management practices, the Asset Management Strategy along with the Asset Management Policy and Plans, will be reviewed regularly.

LTFMP Assumptions and Methodology

The LTFMP reflects the projected financial position of the Council over the next ten years through the following financial statements:

- Statement of Profit or Loss and Other Comprehensive Income;
- Statement of Financial Position; and
- Statement of Cash Flows.

The LTFMP takes the current budget as a base and utilises various assumptions to forecast the following years of the plan.

The LTFMP reflects all current assumptions and decision making. The LTFMP does not include things that might change, but have not yet been decided at the time of its formulation. The assumptions and variables used to underpin Council's LTFMP are reviewed annually. LTFMP assumptions are made in relation to:

- Consumer price index; and
- Interest rates

Assumptions are applied to the following major revenue segments:

- Rates Revenue
- Rates Growth
- Statutory Charges
- User Charges
- Grant Revenue
- TasWater Distribution

Assumptions are applied to the following major expenditure segments:

- Employee Benefits
- Salary Review
- Contractors & Services
- Materials

The LTFMP is a tool to ensure that the Council achieves financial sustainability while delivering services to its ratepayers.

The plan provides projections of:

- Operating results over the forecast period. It is important that Council generates sufficient revenue to cover all of its cash and non-cash costs so that Council reports both an operating and underlying surplus.
- Cash balances over the projection period. It is important to ensure liquidity so that Council is able to meet its debt obligations as and when they fall due.
- Forecast asset renewal funding requirements which is a key financial sustainability indicator. Renewal forecasts are continually being refined and the funding level continually monitored.

These key outcomes ensure the financial sustainability of Council, thus ensuring the ability to deliver services, at their current levels, into the future.

GLENORCHY CITY COUNCIL LONG TERM FINANCIAL MANAGEMENT PLAN	2022 / 2023	2022 / 2023	2023 / 2024	2024 / 2025	2025 / 2026	2026 / 2027	2027 / 2028	2028 / 2029	2029 / 2030	2030 / 2031	2031 / 2032	2032 / 2033
	Original Budget	Revised Budget	Budget	Year 2 Forecast	Year 3 Forecast	Year 4 Forecast	Year 5 Forecast	Year 6 Forecast	Year 7 Forecast	Year 8 Forecast	Year 9 Forecast	Year 10 Forecast
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating Revenue												
Rates	39,424	39,424	43,138	46,028	48,652	50,720	52,875	55,122	57,465	59,907	62,454	65,108
State Fire Commission Contribution	6,338	6,338	6,521	6,847	7,121	7,370	7,628	7,895	8,171	8,457	8,753	9,060
Statutory Charges - Development, Building & Health	2,203	2,203	1,676	1,760	1,830	1,894	1,961	2,029	2,100	2,174	2,250	2,329
User Charges	1,138	1,138	1,193	1,253	1,303	1,349	1,396	1,445	1,495	1,548	1,602	1,658
Waste Charges	8,844	8,844	9,535	10,012	10,412	10,777	11,154	11,544	11,948	12,366	12,799	13,247
TasWater Investment	2,172	2,172	2,172	2,172	2,172	2,172	2,172	2,172	2,172	2,172	2,172	2,172
Grants - Federal Assistance	2,002	2,002	2,840	2,982	3,101	3,210	3,322	3,438	3,559	3,683	3,812	3,946
Grants - State and Other	2,054	2,054	2,575	2,704	2,812	2,910	3,012	3,118	3,227	3,340	3,457	3,578
Interest	51	51	1,100	1,039	978	917	856	856	856	856	856	856
Childcare	524	524	768	806	839	868	898	930	962	996	1,031	1,067
Rental	758	758	785	824	857	887	918	950	984	1,018	1,054	1,091
Other	514	514	510	536	557	576	597	617	639	661	685	709
Total Operating Revenue	**66,022**	**66,022**	**72,814**	**76,963**	**80,634**	**83,650**	**86,789**	**90,117**	**93,579**	**97,179**	**100,924**	**104,824**
Operating Expenses												
Employee Costs	27,296	27,296	28,594	30,324	31,344	32,584	33,861	35,177	36,533	37,929	39,366	40,847
Materials & Services	15,861	16,984	19,188	18,955	19,085	19,327	19,522	20,382	20,624	21,192	22,095	22,379
State Fire Commission Contribution	6,338	6,338	6,521	6,782	6,985	7,160	7,339	7,522	7,710	7,903	8,101	8,303
Depreciation	15,225	15,225	17,180	18,617	18,787	18,878	18,969	19,060	19,151	19,241	19,332	19,423
Amortisation	4	4	0	0	0	0	0	0	0	0	0	0
Lease Amortisation	1,565	1,565	1,665	1,732	1,784	1,828	1,874	1,921	1,969	2,018	2,068	2,120
Finance Charges	235	235	238	62	30	10	1	0	0	0	0	0
Other	1,058	1,058	729	758	781	800	820	841	862	884	906	928
Total Operating Expenses	**67,582**	**68,705**	**74,115**	**77,229**	**78,795**	**80,588**	**82,387**	**84,904**	**86,849**	**89,167**	**91,868**	**94,002**
Operating Surplus / (Deficit)	**(1,560)**	**(2,683)**	**(1,301)**	**(266)**	**1,839**	**3,062**	**4,402**	**5,214**	**6,730**	**8,012**	**9,056**	**10,822**
Non Operating Income / (Expenses)												
Assets Written Off	(2,564)	(2,564)	(1,920)	(1,978)	(2,037)	(2,088)	(2,140)	(2,194)	(2,248)	(2,305)	(2,362)	(2,421)
Asset Disposal	(402)	(402)	(418)	250	250	0	0	0	0	0	0	0
	(2,966)	**(2,966)**	**(2,338)**	**(1,728)**	**(1,787)**	**(2,088)**	**(2,140)**	**(2,194)**	**(2,248)**	**(2,305)**	**(2,362)**	**(2,421)**
Underlying Surplus / (Deficit)	**(4,526)**	**(5,649)**	**(3,639)**	**(1,994)**	**52**	**974**	**2,262**	**3,020**	**4,482**	**5,708**	**6,694**	**8,401**
Capital Income / (Expenses)												
Donated / Gifted / Found	5,300	5,300	3,500	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Capital Grants	7,848	7,848	9,198	3,778	578	578	578	578	578	578	578	579
	13,148	**13,148**	**12,698**	**5,878**	**2,678**	**2,678**	**2,678**	**2,678**	**2,678**	**2,678**	**2,678**	**2,679**
Result from Continuing Operations	**8,622**	**7,499**	**9,059**	**3,884**	**2,730**	**3,652**	**4,940**	**5,698**	**7,160**	**8,386**	**9,372**	**11,080**

LTFMP Fundamentals

- To report both an operating and underlying surplus position in the medium term
- Maintain a positive cash ratio of between 3 and 6 months

Measuring Financial Sustainability

Council's ability to remain financially sustainable and to satisfy the purposes of Section 84(2A) of the Act, can be measured using the Key Performance Indicators as outlined in the *Local Government (Management Indicators) Order* 2014.

The primary financial sustainability indicators are the long-term financial rules which guide Council in making financial decisions and the target and acceptable ranges may be varied by Council over time.

The seven measures adopted for the purposes of the FMS are:

- Underlying surplus or deficit
- Underlying surplus ratio
- Net financial liabilities
- Net financial liabilities ratio
- Asset consumption ratio
- Asset renewal funding ratio
- Asset sustainability ratio

The first two are measures of profitability, the next two are measures of indebtedness, and the last three are measures of asset management.

The ranges established for the primary financial sustainability indicators allow for some impact of future uncertainties and contingencies so that ongoing financial sustainability can be maintained. In addition, Council will prudently set aside reserves to fund future expenditure requirements.

However, it is impossible to plan for every eventuality (e.g. natural disasters or major legislative changes impacting on local government), and Council may be required to undertake short-term corrective actions in the future to respond to unexpected events and immediate challenges to financial sustainability.

Indicator 1 – Underlying surplus or (deficit)

This means an amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for a financial year less the recurrent expenses of the council for the financial year

This indicator is seen as a better indicator of sustainable or recurring operations as it excludes capital grants which can be project specific and thus non-recurring, and other non-cash amounts which are recorded as income due to accounting standard requirements.

An operating surplus arises when operating revenue exceeds operating expenses for the period. An operating deficit arises when operating expenses exceed operating revenue for the period. Council's long term financial sustainability is dependent upon ensuring that on average, over time, its expenses are less than associated revenues. This ensures equality between generations of ratepayers in that each generation is responsible for the cost of resources they consume.

Target	2023 (interim)	2022	2021	2020
>0 $m	(1,261)	2,033	(6,329)	(2,821)

Indicator 2 – Underlying surplus or (deficit) ratio

This means an amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for a financial year less the recurrent expenses of the council for the financial year, divided by recurrent income.

It is a better indicator than the underlying operating result because it expresses that result relative to annual revenue.

Target	2023 (interim)	2022	2021	2020
2.5% - 5.0%	(1.8)	3.1	(10.8)	(4.7)

Indicator 3 – Net financial liabilities

This means an amount that is the amount of the liquid assets of a council for a financial year less the total liabilities of the council for the financial year

In other words, what is owed to others less cash held/invested and receivables and is thus a measure of net indebtedness. It is broader than just loan debt, as it includes amounts owed to creditors, employee provisions, amounts held in trust and all other liabilities.

Target	2023 (interim)	2022	2021	2020
>0 $m	12,464	9,303	7,132	(529)

Indicator 4 – Net financial liabilities ratio

This means an amount that is the amount of net financial liabilities of a council for a financial year divided by an amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for the financial year

It indicates the extent to which net financial liabilities can be met by the Council's income. Where the ratio is increasing it indicates the Council's capacity to meet its financial obligations from income is strengthening.

Target	2023 (interim)	2022	2021	2020
0% - (25%)	17.9	14.0	12.2	(0.1)

Indicator 5 – Asset consumption ratio

This means, in relation to an asset class required to be included in the long-term strategic asset management plan of a council, an amount that is the depreciated replacement cost of an asset divided by the current replacement cost of the asset.

This indicator expresses asset written down value as a percentage of replacement cost and therefore seeks to measure the proportion of life remaining in assets. A lower measure indicates an older, on average, portfolio of assets and could indicate the potential for large renewal expenditure.

However, a low or declining ratio is not a concern provided assets are being maintained/replaced in accordance with well-prepared asset management plans and the organisation is operating sustainably. The cash generated by operating sustainably funds the renewal of assets when required.

Target	Asset Category	2023 (interim)	2022	2021	2020
>60% Low risk	Buildings	52%	50%	48%	48%
40% - 60% Medium Risk	Transport	50%	51%	52%	53%
<40% High Risk	Drainage	62%	63%	63%	64%

Indicator 6 – Asset renewal funding ratio

This means an amount that is the current value of projected capital funding outlays for an asset identified in the long-term financial plan of a council divided by the value of projected capital expenditure funding for an asset identified in the long-term strategic asset management plan of a council.

This indicator is the ratio of future asset replacement expenditure as per the LTFMP relative to the future asset replacement expenditure requirement sourced from asset management plans. It therefore measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels.

Target	Asset Category	2023 (interim)	2022	2021	2020
>60% Low risk	Buildings	105%	145%	117%	100%
40% - 60% Medium Risk	Transport	99%	99%	99%	100%
<40% High Risk	Drainage	100%	100%	99%	100%

Indicator 7 – Asset sustainability ratio

This means an amount that is the amount of capital expenditure by a council in a financial year on the replacement and renewal of existing council plant, equipment and infrastructure assets divided by the annual depreciation expense of the plant, equipment and assets for the financial year.

This ratio is asset replacement capital expenditure expressed as a percentage of depreciation expense. It measures whether assets are being replaced at the rate at which they are wearing out. With a young asset portfolio, the target may be quite low. If old, it may be > 100%. Over time, if it averages at or near 100% the service of the asset portfolio is being maintained.

Target	2023 (interim)	2022	2021	2020
100%	63%	61%	46%	70%

The indicators are reported in Council’s Annual Financial Report and are subject to commentary in the Report of the Auditor-General presented each year to State Parliament.

Summary

Financial management and long-term financial planning provides for the optimum allocation of available financial resources to deliver Council's strategic and corporate objectives and delivery of Council's community vision.

Long term financial sustainability can only be achieved when Council is providing expected services at defined levels to its community that is adequately funded, not only on an annual basis, but in the long term. This includes infrastructure asset renewal funding requirements.

The achievement of the outcomes in the FMS, along with employing a continual improvement mindset, will ensure Council's financial sustainability, thus providing the ability to deliver services, at their current levels, into the future while sharing the cost between current and future generations of ratepayers.