POLICY

TITLE:	Financial Sustainability and Revenue Policy		
DIVISON:			
ADOPTED BY:	Council		
DATE OF ADOPTION:	11 December 2014	**DATE OF REVIEW:**	1 December 2018
MOTION NUMBER:	307/14		
POLICY NUMBER:	CP000036		
AUTHORISED:	Chief Executive Officer		

THIS POLICY APPLIES TO:
All employees of the Barkly Regional Council and Elected Members

PREAMBLE

The aim of all policy is for Councillors to provide strategic input into the effective operational framework of the organisation under S.11 of the Local Government Act

SUMMARY

This Policy sets forth Council's intent to grow its own-source revenue base and achieve financial sustainability. Whilst acknowledging that financial sustainability is unlikely to be attainable in the foreseeable future the Policy identifies how the Council proposes working towards this goal and establishes principles to be applied when implementing a new revenue source, or increasing revenue from existing sources.

OBJECTIVES

This Policy is intended to improve the Council's financial sustainability and provide guidance to Elected Members and staff when developing strategies for growing Council revenues, assessing projects with revenue generating capacity and drafting Budgets and Business Plans.

BACKGROUND

The functions of a Council established by the Local Government Act of the Northern Territory include managing and developing 'all the resources available to the Council' whilst seeking to provide services, facilities and programs 'appropriate to the needs of its area' (Section 12 and Section 13 of that Act refer). It is widely acknowledged that Council revenues, particularly 'own-source' revenues are often insufficient to meet community needs and that this situation is unlikely to improve. Indeed Local Government financing is entering a critical period with additional pressure in terms of constrained revenue bases from traditional sources along with increased demand for services and costs pressures. Financial sustainability and the vigorous pursuit of revenue from sources other than rates is therefor of increasing importance.

The 2006 *PriceWaterhouseCoopers* '*National Financial Sustainability Study of Local Government*' identifies financially sustainable councils as having:

- a reasonable scale in operations and population
- a strong rates income
- a strong economic base
- a sophisticated asset management and financial management system in place.

Barkly Regional Council (BRC) has none of these attributes (although appropriate financial and asset management systems are being developed) and faces sustainability problems in both the immediate and longer term future. This situation is not unique to BRC: The PWC Study found that rural remote' and 'rural agricultural' local authorities demonstrated 'pronounced' problems with financial sustainability, and most of these councils required 'extra funding' for the urgent replacement of 'existing community infrastructure'.

The 2005 *Independent Inquiry into the Financial Sustainability of Local Government* recommended greater use of financial indicators by Councils. This led to the development of a set of standardised financial indicators applicable to all Councils. Subsequently all Local Government jurisdictions in Australia have agreed, in principle, to adopt the following three key financial indicators:

- Operating Surplus Ratio
- Net Financial Liabilities Ratio
- Asset Sustainability Ratio

for measuring sustainability.

POLICY STATEMENT

The functions of a Council established by the Local Government Act of the Northern Territory include managing and developing 'all the resources available to the Council' whilst seeking to provide services, facilities and programs 'appropriate to the needs of its area' (Section 12 and Section 13 of that Act refer). Barkly Regional Council's Strategic Plan includes amongst other statements

- Strategy 1.5 To broaden the economic base to develop resilience; and
- Goal 5 Outcome of maximizing Council resources for the benefit of the region

It is clear that in the foreseeable future BRC rates and other existing own source revenue will be insufficient to meet community needs. Having regard for its Strategic Plan and the functions of a Council prescribed by the Local Government Act, the Council is committed :

- To vigorously pursuing alternative revenue sources to grow and diversify its economic base, and
- To achieving *financial sustainability* (which is determined by a Council's ability to manage expected financial requirements and financial risks and shocks over the long term without the use of disruptive revenue or expenditure measures)

BRC will work towards financial sustainability by:

- Managing Council finances for long-term viability, achieving funding to cover operational needs while allowing for appropriate asset replacement.
- Employing sound asset management practices – aim to maintain our infrastructure and assets to the required standard to ensure continued delivery of services to agreed standards
- Ensuring stable rate percentage changes
- Identifying and vigorously pursuing alternative revenue sources to reduce reliance on rate revenue
- Managing debt prudently
- Ensuring a fair sharing of the distribution of resources and financial burden between current and future users of our services and infrastructure (Intergenerational Equity)

To meet these needs BRC will vigorously pursue all available revenue sources. These include:

Rates
In setting rates, Council's primary consideration is the Regional Plan. Council considers the current economic climate, incorporating inflation rates and Consumer Price Index (CPI), Council's debt profile, imposed legislative change and the need to manage, maintain and improve the community's physical infrastructure assets for future generations. Council, in its deliberations, takes into consideration the effect of rates on all ratepayers and is mindful of maintaining the balance between economic and community development and ensuring funding equity within the community which along with an assessment of the impact of rates across the area forms the criteria for annual rates modelling which is then used to develop a planned review of the basis of rating each year.

Government Grants and Subsidies
The Commonwealth and Territory Governments both offer grants for a range of other purposes that Local Government can access, and allow them to pursue investments that will benefit their community. These grants which may be untied or specific purpose grants will be sought subject to compliance with Council's *Government Grants and Funding Agreements Policy*

Alternative Service Provision Models
Such as Private Public Partnerships (PPP) where private capital is utilised to meet a community need

Sale of Goods and Services
Through the identification of services being provided now which are currently funded from general revenue where some/all of the cost of provision can be recovered from the service user or the identification of new services that could be offered that would generate a price in excess of the costs of delivery and therefore earn a margin that can be distributed to assist in the cost of other services. Opportunities must be assessed with regard for the collection costs that may be involved – and the issues of access for low income individuals (i.e. an equity context).

Appropriate Revenue Generating Business Opportunities

Revenue generating business activities to be pursued will be compatible with the Council's role as a local government. In identifying these opportunities the Council will have regard for the impact on existing local businesses and its obligations under the National Competition Policy (NCP) which requires the removal of competitive advantages or disadvantages of significant business enterprises undertaken by Councils arising from the public sector ownership of those businesses.

(The objective of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership.)

Business opportunities will only be undertaken after an appropriate level of due diligence has been applied to the proposed activity with a view to risk minimisation and achieving best use of Council resources.

Fees and Charges

Consideration will be given to charging fees for services where there is some private benefit having regard for equity issues.

Sponsorship (or Co-Contribution)

Where there is a joint interest of Council and private operators to support certain activities (Having regard for Council's *Sponsorship Policy*).

Investment Income

Investments will be managed to maximise the return on investment subject to compliance with the Council's *Investment Policy*

Revenue from Sale of Underutilised Assets

Consideration will be given to the sale of underutilised assets where appropriate and consistent with the *Disposal of Property Policy*..

Debt

Funds will be borrowed where appropriate however In accordance with the Councils *Borrowing Policy* loans will be limited to the funding of major items of physical infrastructure whose life will exceed the term of any loans borrowed and which cannot be funded from the revenue sources of the Council, or; Major items of plant and equipment where the cost of borrowing (including the repayment of capital) will be matched over time by a reduction in the ongoing cost of the activity for which the loan is to be raised.

Principles to be Applied

The following principles will apply when implementing a new revenue source, or increasing existing revenue sources:

- The type and level of taxes and fees will recognise the broader context – which includes the importance of tax and fee levels in terms of economic competitiveness and impact on households and businesses in the community
- Revenue sources need to have breadth to reduce overall exposure to one revenue type

- Revenue systems need to consider equity in their outcomes for all stakeholders
- User fees are an appropriate form of revenue, but must be set to private benefit level as to set beyond that level results in misallocation of community resources
- Consideration of revenue options will include recognition of the transaction costs (costs at the local government level and costs borne by the payer) involved in collecting the funds, to ensure that the revenue to costs ratio is as large as possible
- Where Council proposes to invest in business activity to generate revenue an appropriate level of due diligence will be applied to the proposed activity to minimise risk, consideration will be given to the impact on local businesses and any opportunity costs and Council's obligations under NCP will be met.

Reporting
Annual reports will include the following KPI's identified as measures of sustainability, viz.:

Indicator 1: Operating Surplus Ratio - (By what percentage does the major controllable revenue source vary from operating expenses?)

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of general and other rates, net of rate rebates and revenues from the NRM levy.

Council Target: To achieve, on average, an operating surplus ratio of between 0% and 15%

Indicator 2: Net Financial Liabilities Ratio - Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses).

The net financial liabilities ratio is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year.

Council Target: Net financial liabilities ratio is greater than zero but no more than 100% of total operating revenue.

Indicator 3: Asset Sustainability Ratio - (Are assets being renewed and replaced in an optimal way?)

It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Council's infrastructure and asset management plan (I&AMP).

Council Target: Capital outlays on renewing/replacing assets net of proceeds from sale of replaced assets are greater than 90% but less than 110% of the level proposed in the Infrastructure and Asset Management Plan (I&AMP).

LEGISLATION, TERMINOLOGY AND REFERENCES
The Local Government Act (in particular Chapters 10 and 11) and the Local Government Act (Accounting) Regulations

IMPLEMENTATION AND DELEGATION
The CEO has delegated authority to implement this policy

EVALUATION AND REVIEW
This Policy is to be reviewed every four (4) years, and may be reviewed at other times at the discretion of Chief Executive Officer.