



# Central Coast Council Financial Strategy

Version 0.1  
Group Financial Controller  
Date 23 August 2022



## Introduction

A financially sustainable Council as defined by the NSW Government is one that, over the long term, will generate sufficient funds to provide the level and scope of services and infrastructure agreed with its community through the Integrated Planning and Reporting process.

This Financial Strategy has been developed to provide direction and context for decision making in the allocation, management and use of Central Coast Council's financial resources that will result in a financially sustainable Council. Council's Long Term Financial Plan (LTFP) supports this strategy and includes a number of possible scenarios and action items. Council's LTFP is a planning and decision tool that shows the long-term financial impacts of Council's decisions based on assumptions, provides financial projections, scenario modelling and performance measures, highlights issues and helps assess the long term fiscal sustainability of Council and whether service levels need to be adjusted now or into the future and details the assumptions and drivers that help form the LTFP.

This Financial Strategy aims to ensure that Council achieves its LTFP and financial sustainability while giving priority to the delivery of services to our community. It is a driver for improving efficiency and releasing resources to improve and /or maintain services as required. It also sets the parameters within which Council agrees to operate in order to maintain accepted financial outcomes and should be viewed as a strategy that aims to provide financial sustainability, affordability, delivery and value for money, over the short, medium and longer term.

The adoption of a Financial Strategy is important to provide a tool for ensuring that all financial decisions by Council are made within the context of Council's LTFP.

## Council Background

Central Coast Council is both a Local Government Authority regulated by the Local Government Act 1993 and a Water Supply Authority regulated by the Water Management Act 2000. Council currently has the following funds to ensure appropriate reporting of services based on restrictions. The Consolidated Fund is the total of all the funds. The Water Supply Authority refers to only the Water, Sewer and Drainage Funds.

Fund	Consolidated	Water Supply Authority
General	✓	
Water	✓	✓
Sewer	✓	✓
Drainage	✓	✓
Domestic Waste	✓	

Effective 1 July 2026, Drainage Fund charges will no longer be regulated by IPART and will be included as part of Council's General Fund. External reporting will require the General Fund and the Drainage Fund to remain as two separate funds until that time, however from the date of adoption of this Financial Strategy by Council, Drainage Fund cash and borrowings will be rolled into the General Fund for internal reporting purposes.

## Objectives

The objectives of this Financial Strategy are to:

1. Assist Council to use ratepayers' money, together with other funding available, to provide prioritised services and ensure financial sustainability and sound asset management.
2. Provide direction and context for decision making in the allocation, management and use of Central Coast Council's finite financial resources.
3. Guide the elected Council and senior staff of Council in the management of its LTFP and determine financial boundaries for delivery of operational and capital plans.

The outcomes of the Financial Strategy will ensure that:

1. Council will be in a healthy financial position both in the short and long term.
2. Public resources are distributed fairly between current and future ratepayers (intergenerational equity).
3. There is consistent delivery of essential community services and efficient development of infrastructure.
4. Funding is made available for the maintenance and replacement of assets to deliver levels of service to the community.
5. There is clarity for the elected Council, management and staff around the core parameters to be met in terms of financial management.

## Challenges

Council's financial recovery plan put in place in October 2020 has been successfully executed and Council has met all major milestones and targets in this recovery plan.

Council has implemented cost management measures including structural reduction of staffing by \$30M, ongoing annual reduction of materials and contracts by \$20M, capped annual capital works programs of \$175M and selling at least \$60M in property assets. Council has implemented changes to the management team, adopted tighter budget management controls and productivity improvements. Council also secured \$150M in emergency commercial bank loans to reimburse the restricted funds that had been spent unlawfully on projects that the community had benefited from. These loans must be repaid within 10 years.

In the future, Council will continue to face challenges that require strong financial leadership and creative solutions applied to matching its community's aspirations to its capacity and desire.

The key challenges will include:

1. Greater understanding of the community's needs, wants, desires and priorities for services and service levels and matching that to the organisations and community's capacity to sustainably fund the provision of agreed services.

2. Providing capacity to meet increasing expectations from all areas including community, service users and government.
3. Understanding and managing the risks associated with the extensive and diverse range of services we deliver to the community and that Council's costs are increasing greater than income sources.
4. Ensuring future decisions provide affordable long-term solutions that are within the financial capacity of our community.
5. Ensuring debt funding is sustainable and within the financial parameters set as part of this strategy.
6. Addressing Council's medium to long term shortfall in funding the renewal and maintenance of assets used to deliver services.
7. Ensuring Council is well positioned to take advantage of future funding and grant opportunities presented by the NSW and Federal governments.

## **Implementation and Review**

The key strategies contained within this document will be implemented over a ten-year period. The implementation of the Financial Strategy will be led by Council's Executive Leadership Team. The Financial Strategy will be reviewed annually.

The following section summarises Council's aims and parameters designed to assist Council in achieving financial stability, affordability, focus and efficiency.

The measures will be applied on a per fund basis. The graphs included in the Financial Strategy are at Consolidated Council level to show historical trend and future targets.

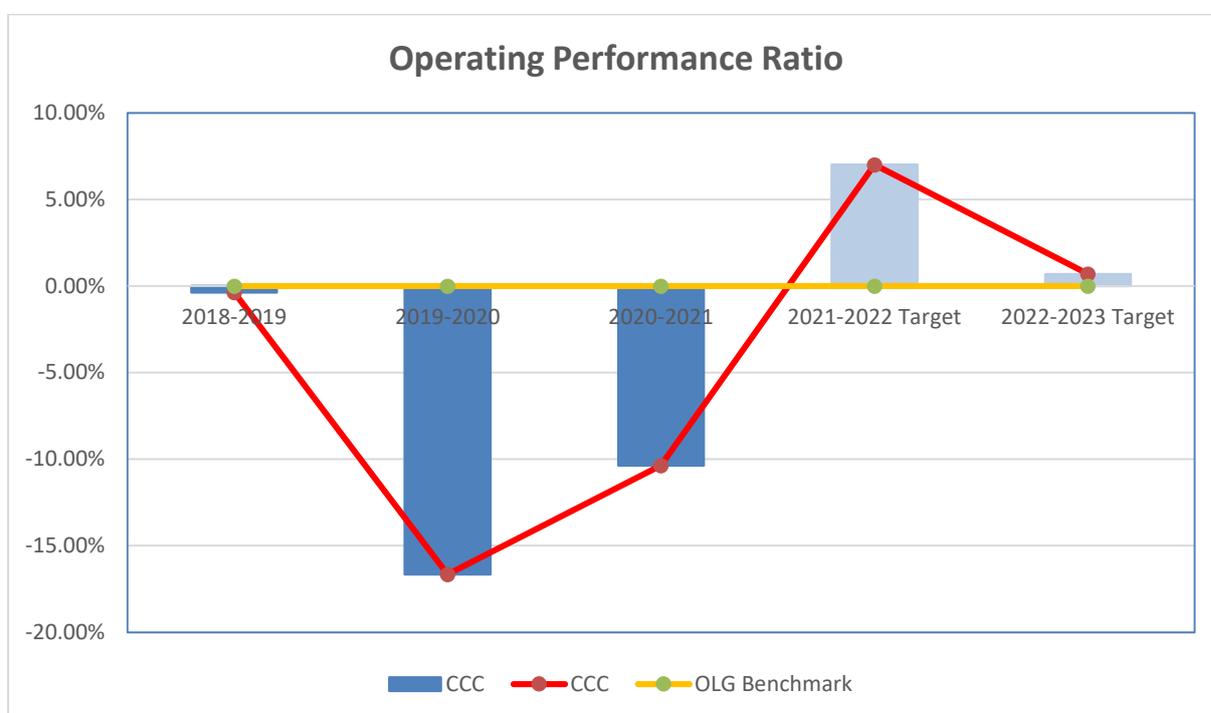
## Measuring Performance

### Positive Operating Performance

Council will develop actions to achieve and maintain operational surpluses in each fund in the future. This will be measured by:

1. **Operating Performance Ratio** of between 1% and 8%. The Operating performance ratio measures Council's achievement of containing operating expenditure within operating revenue. This ratio focuses on operating performance and excludes capital income from grants and contributions. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Total continuing operating revenue (excluding capital grants and contributions) less operating expenses}}{\text{Total continuing operating revenue (excluding capital grants and contributions)}}$$

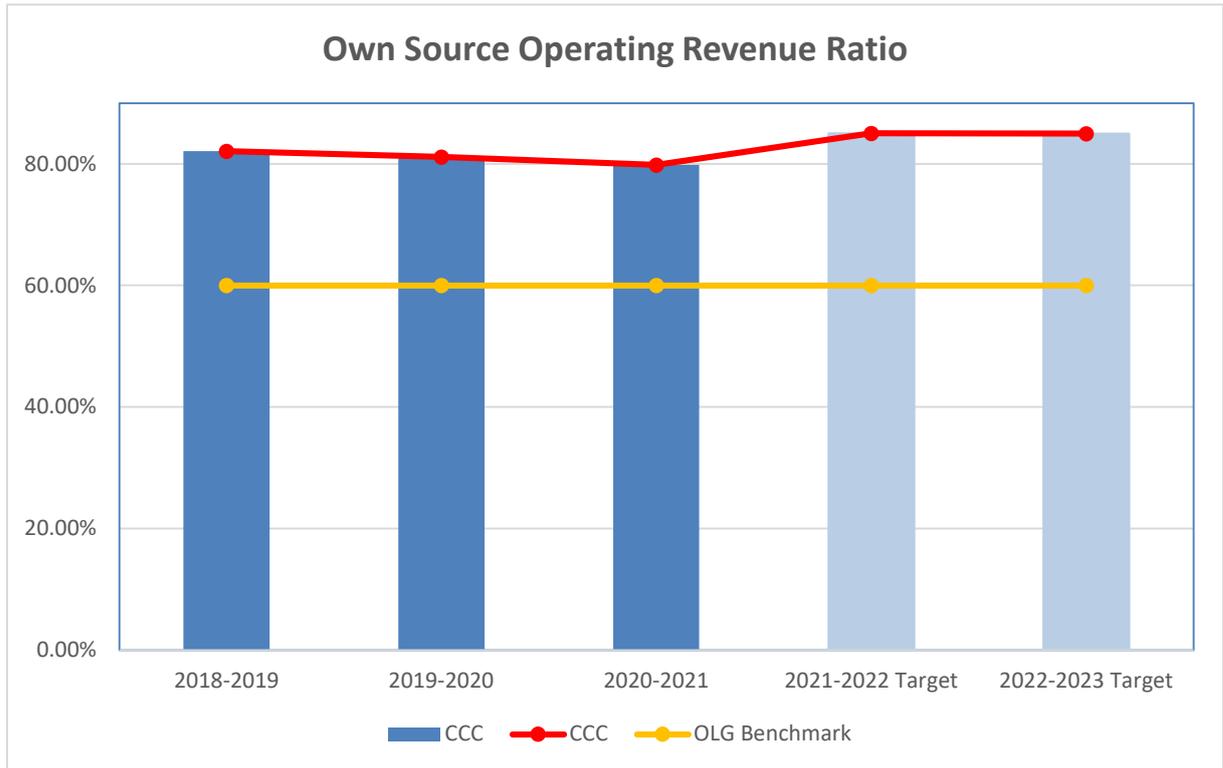


To achieve this ratio Council will plan to achieve a modest operational surplus (excluding capital grants and contributions) in each fund. The operating result (excluding capital grants and contributions) is an indicator of the long-term financial viability of Council. In broad terms, a deficit from operations indicates that Council is not earning sufficient revenue to fund its ongoing operations (services) and continue to renew the assets.

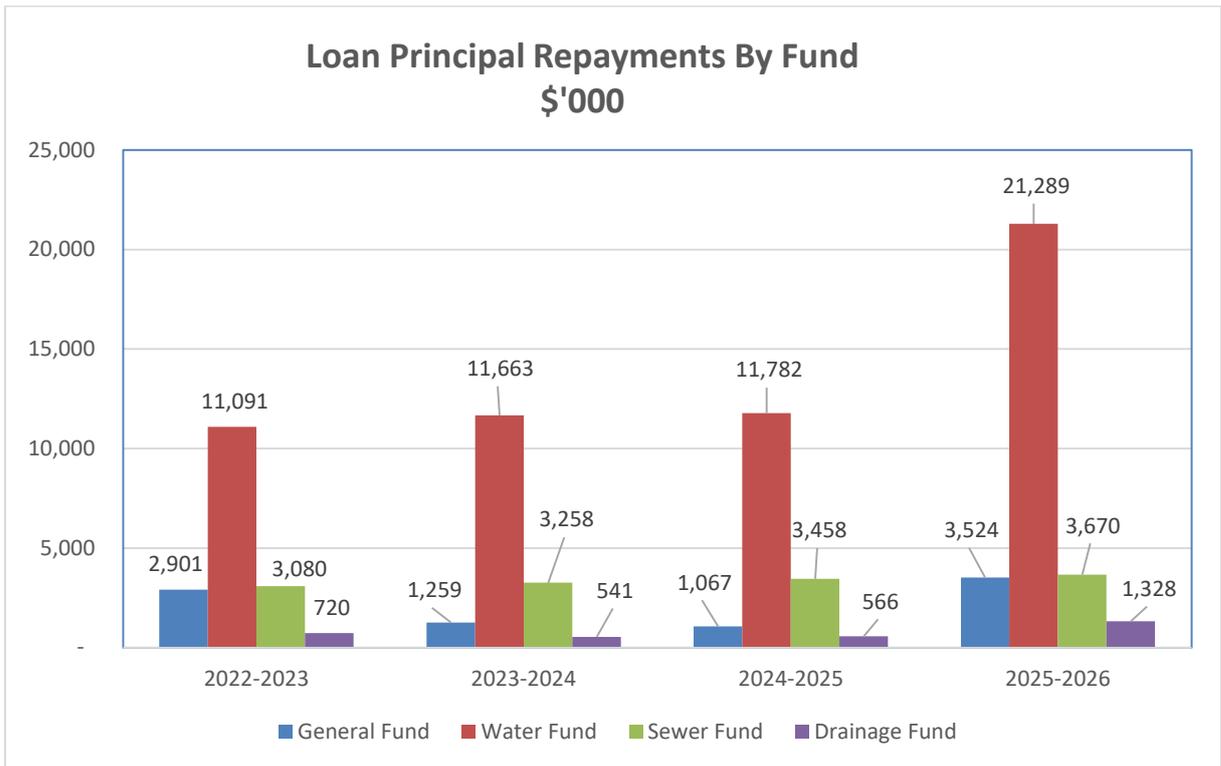
At 30 June 2022 Council's Domestic Waste Fund had externally restricted cash of \$91.7M. The utilisation of these restricted funds for the betterment of the LGA in the forthcoming years will be a priority for Council. This may see a deficit in the Domestic Waste Fund operating performance as these accumulated surpluses are utilised.

- Own Source Operating Revenue Ratio** greater than 60%. This ratio measures fiscal flexibility and the degree of reliance on external funding sources. A Council’s fiscal flexibility improves the higher the level of its own source of revenue. Council will continue to actively pursue grant funding and other contributions to assist in the delivery of core services. Council will aim to achieve the industry benchmark of 60% in each fund. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Total continuing operating revenue excluding all grants and contributions}}{\text{Total continuing operating revenue inclusive of capital grants and contributions}}$$



- Capacity to cash service debt by fund** - The operating result (excluding capital grants and contributions) for each fund for the year plus pre-existing unrestricted cash reserves in each fund needs to at least cover the net loan principal repayments of that fund for that same year. This excludes the emergency loans in the General Fund as the balance at 30 June 2022 of \$135.3M is repaid under different terms set by the lending institutions. The following graph shows loan principal repayments for the next four years by fund and therefore indicates the surpluses to be achieved.

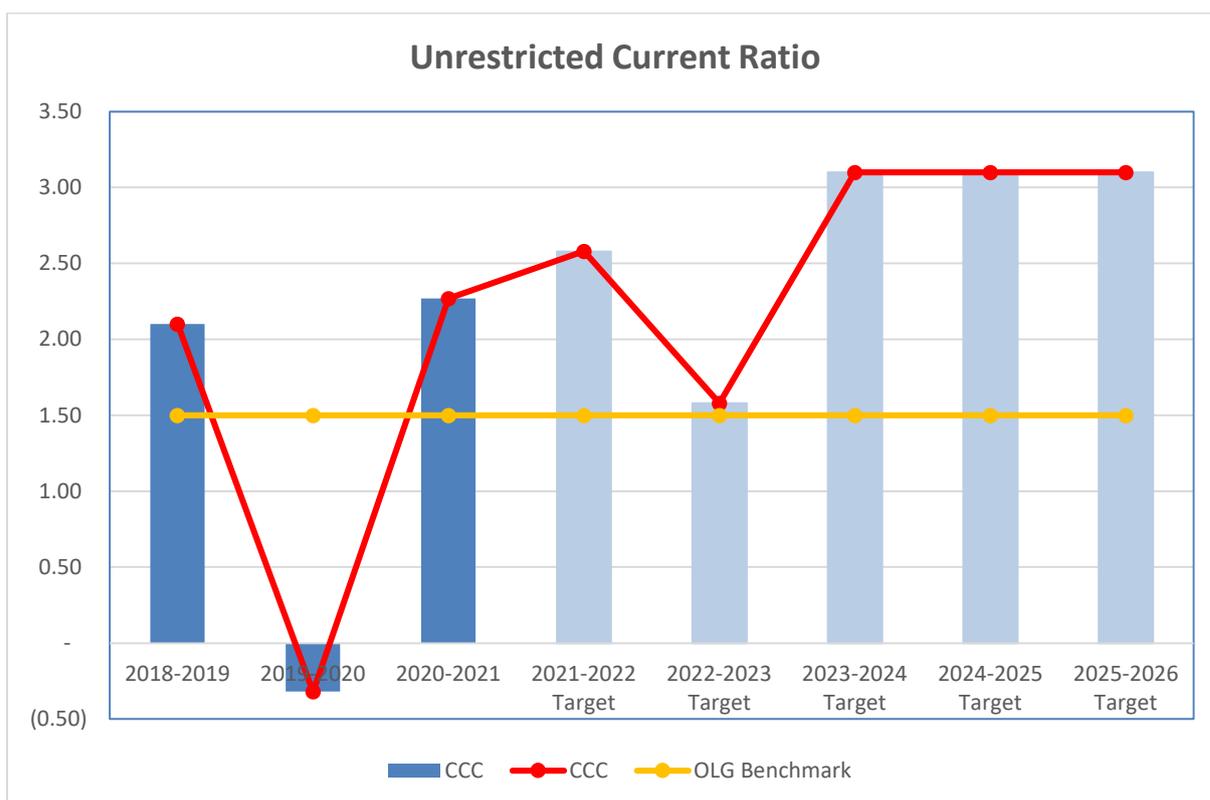


## Strong Liquidity

Council will aim to maintain a strong cash position, where all restricted funds are fully supported by cash in each fund and that there is also sufficient unrestricted cash in each fund to seize opportunity or to cater for unforeseen and unplanned events. In recent years Council has been faced with natural disasters and COVID19 pandemic and it is important that unrestricted cash is available to withstand events like these in the future. This will be measured by:

1. **Unrestricted Current Ratio** greater than or equal to 1.5. The purpose of this ratio is to demonstrate whether there are sufficient funds available to meet short term obligations. Council will aim to achieve the industry benchmark of 1.5 in each fund. The graph below is Consolidated performance and targets for future years.

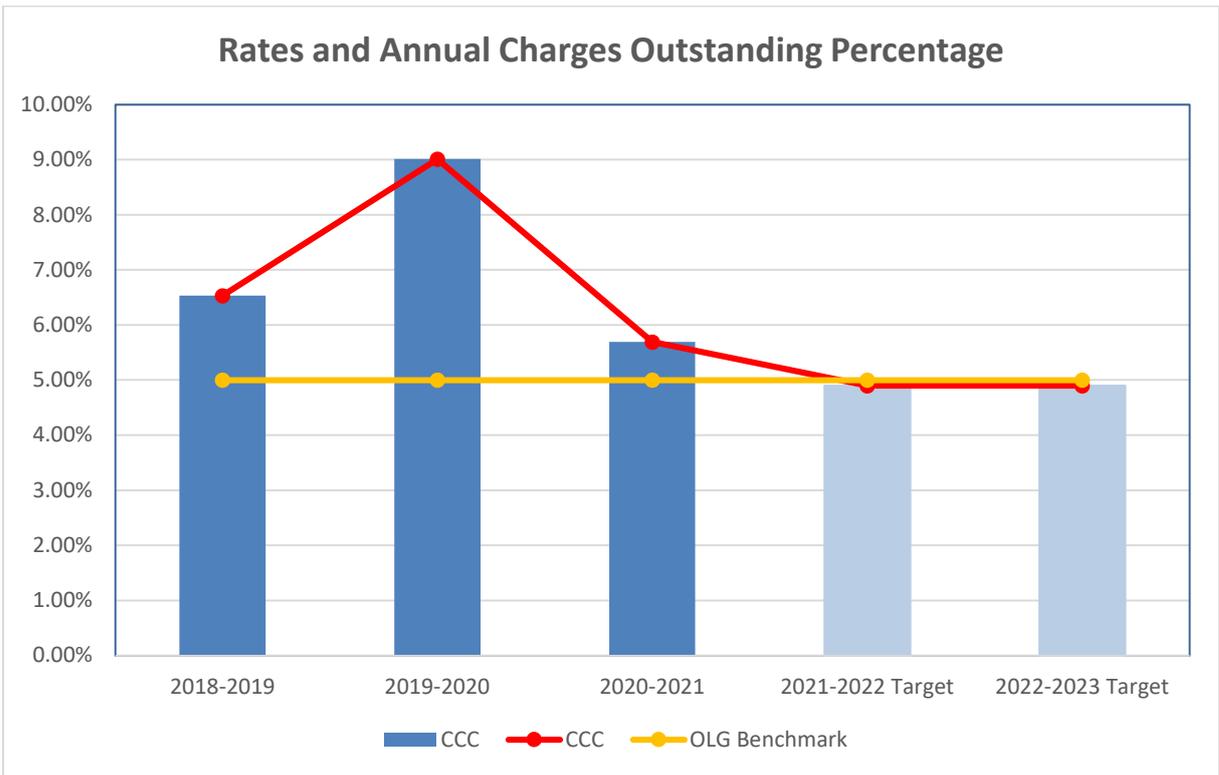
$$= \frac{\text{Current assets less all external restrictions}}{\text{Current liabilities less specific purpose liabilities}}$$



- Unrestricted Cash** Council will aim to maintain unrestricted cash in each fund and set a target band of between 3% and 10% in each fund. This compares favourably to the weighted average ratio of 3.1% for all NSW councils for the year ended 30 June 2021<sup>1</sup>. Unrestricted Cash are funds available to cover operational needs and unexpected or emergency costs within each fund. Unrestricted funds in Water, Sewer or Drainage funds cannot be utilised by other funds without Ministerial Approval to do so. Meanwhile, unrestricted cash in General Fund can be lent to the other funds. Where shortfalls occur in any particular fund, unrestricted cash in General Fund must cover those amounts.
- Rates and Annual Charges Outstanding Percentage less than 5% at year end.** The purpose of this measure is to assess the impact of uncollected rates and annual charges on liquidity and the adequacy of recovery efforts in each fund. Council will aim to achieve the industry benchmark of 5% in each fund. The graph below is Consolidated performance and targets for future years.

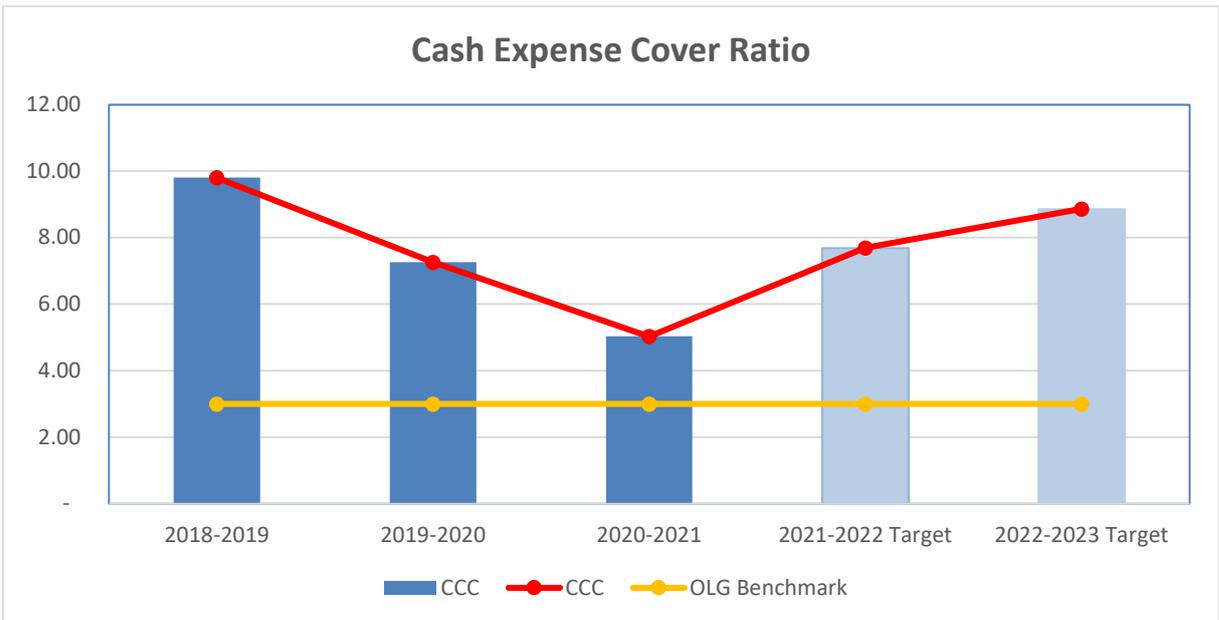
$$= \frac{\text{Rates and annual charges outstanding}}{\text{Rates and annual charges collectible}}$$

<sup>1</sup> Source - Local Government Solutions NSW Council's performance analysis



4. **Cash Expense Cover Ratio** greater than 3 months. This liquidity ratio indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. Council will aim to achieve the industry benchmark of 3 months in each fund. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Cash and cash equivalents plus term deposits}}{\text{Cash flows from operating and financing activities}}$$



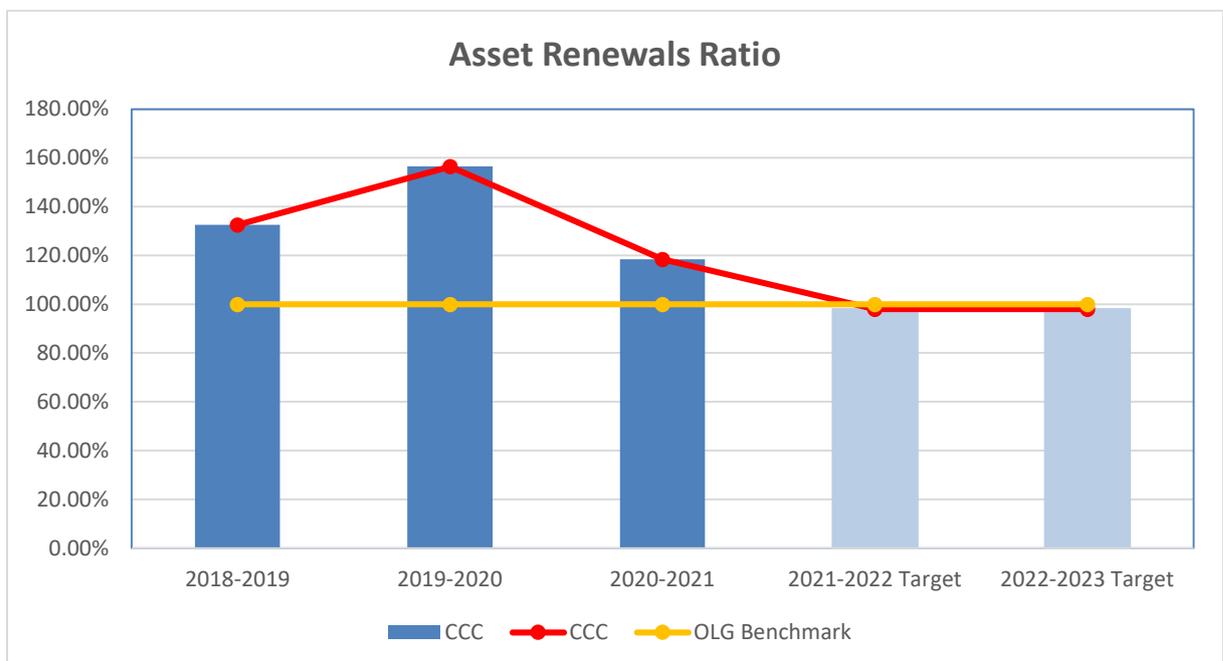
5. **Investments** Council will invest surplus cash in accordance with its Policy for Investment Management adopted by Council on 28 June 2022. Investments are surplus funds at a point in time, either earned from prior operations or available due to timing between income and expenditure (incl restricted assets). Interest on Investment of surplus funds provides additional resource to Council. Council, in its Investment Policy, carefully weighs up its stewardship role and prudent investment risk to optimise returns.

## Focus on Assets

Council will aim to align expenditure with asset management plans, work towards addressing the infrastructure backlog and attract funding from other levels of government and external partners. This will be measured by:

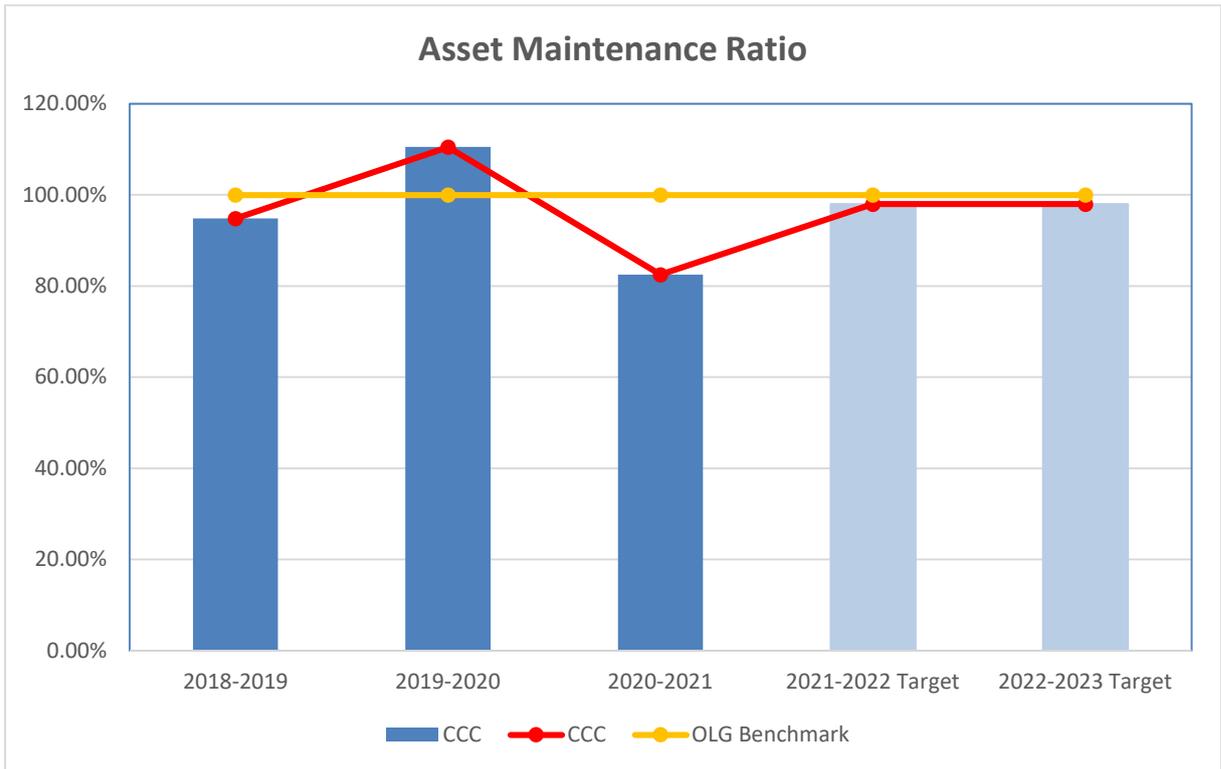
1. **Asset Renewals Ratio** greater than 100%. The purpose of this ratio is to assess the rate at which these assets are being renewed against the rate at which they are depreciating for building and infrastructure assets. Funding for the renewal of assets will be applied to asset replacement and will ensure that the whole of life cost is considered and are able to be sustainably accommodated within future forecasts. Council will aim to achieve the industry benchmark of greater than 100% in each fund. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Asset renewals excluding WIP for infrastructure assets only}}{\text{Depreciation, amortisation and impairment}}$$

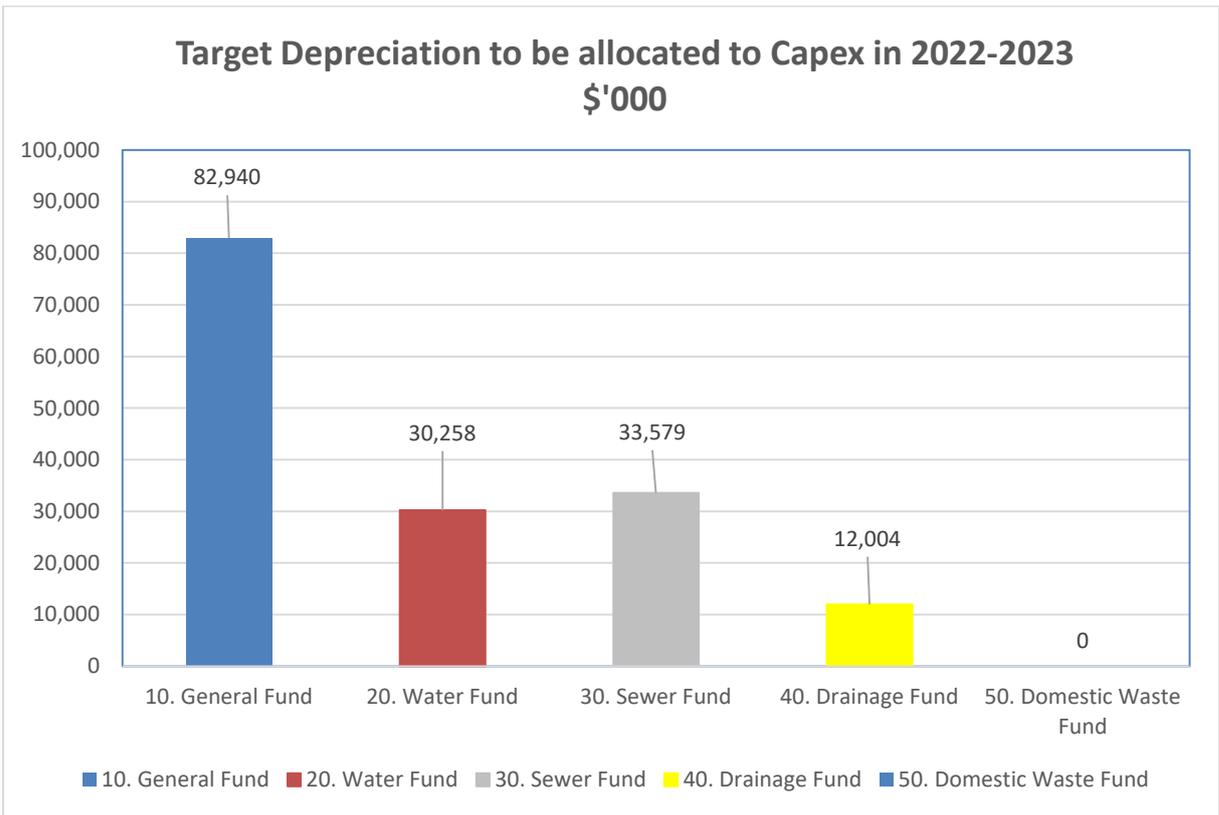


2. **Asset Maintenance Ratio** greater than 100%. This ratio compares actual maintenance against required maintenance to determine whether Council is investing enough funds to stop the infrastructure backlog from growing. Council will aim to achieve the industry benchmark of 100% in each fund. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$$

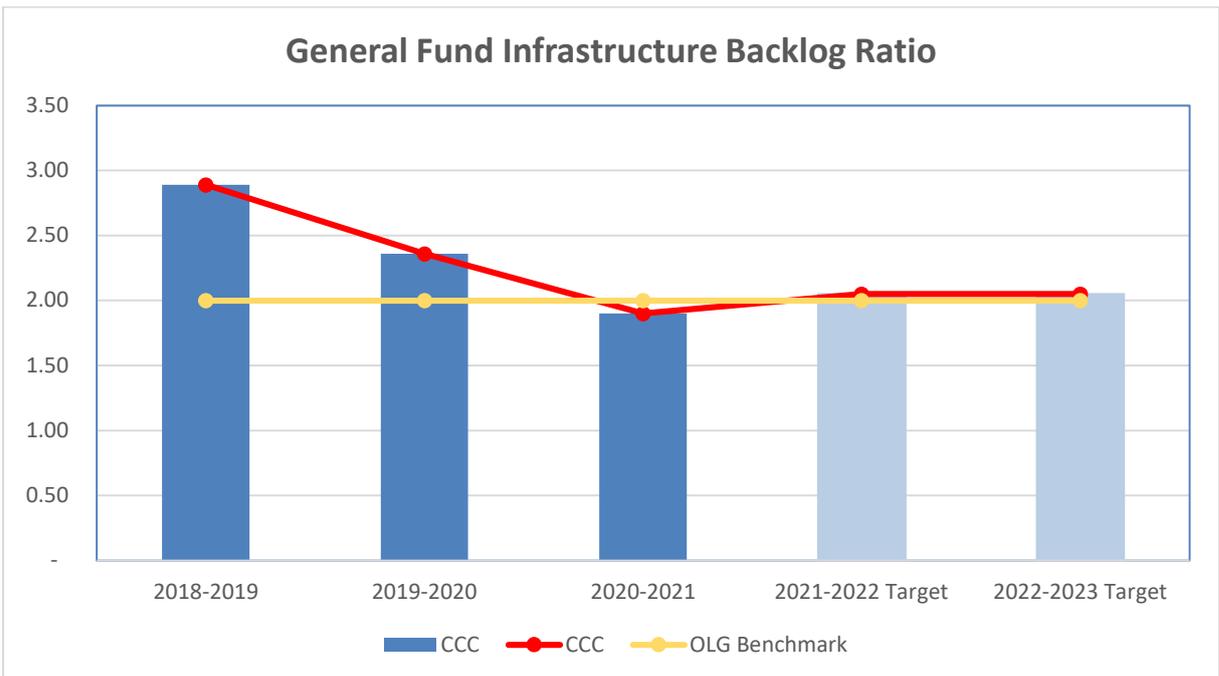
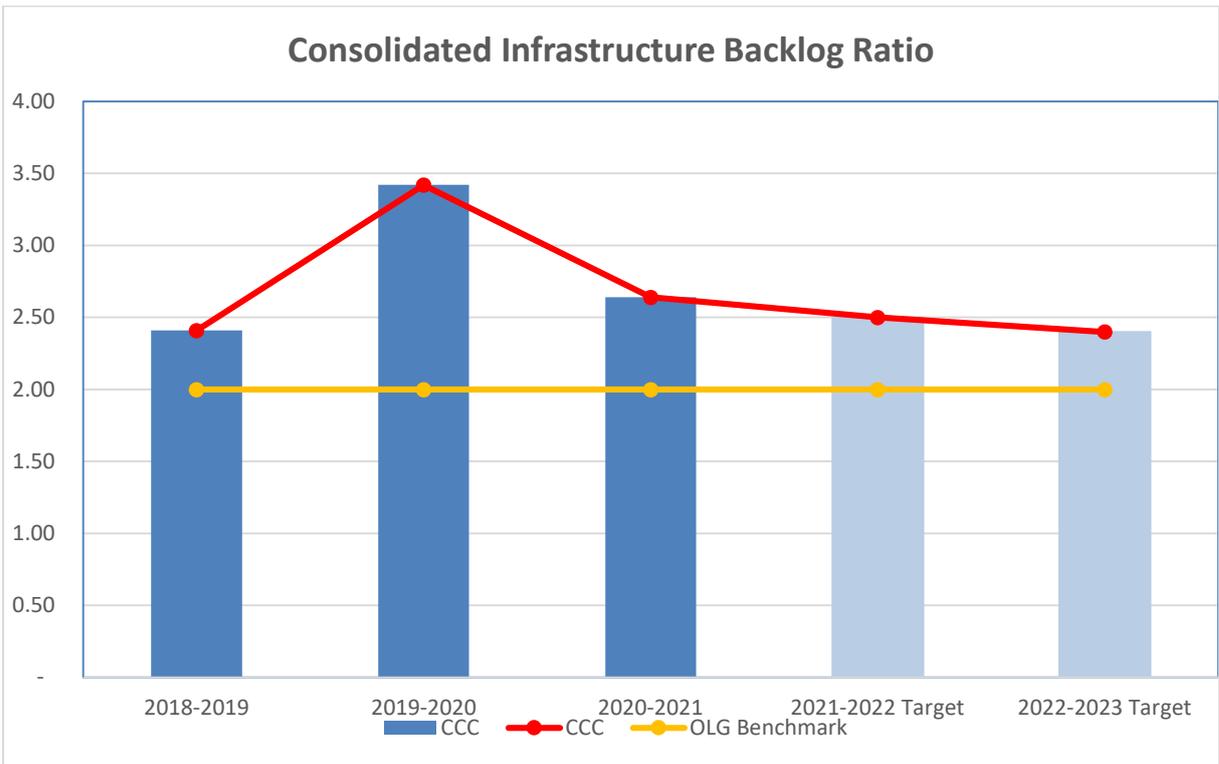


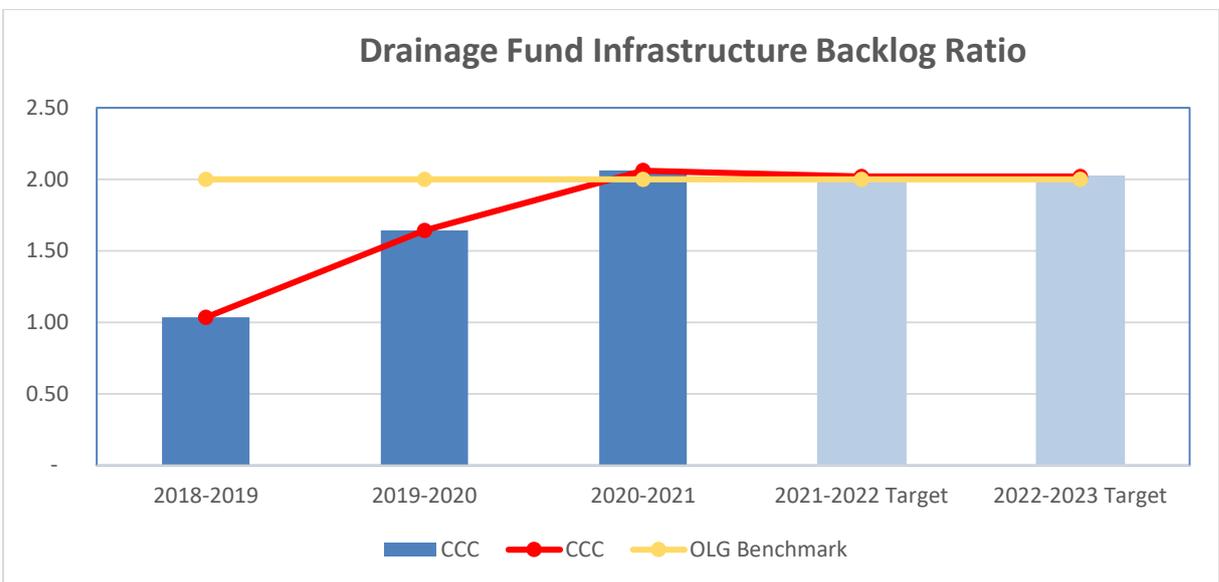
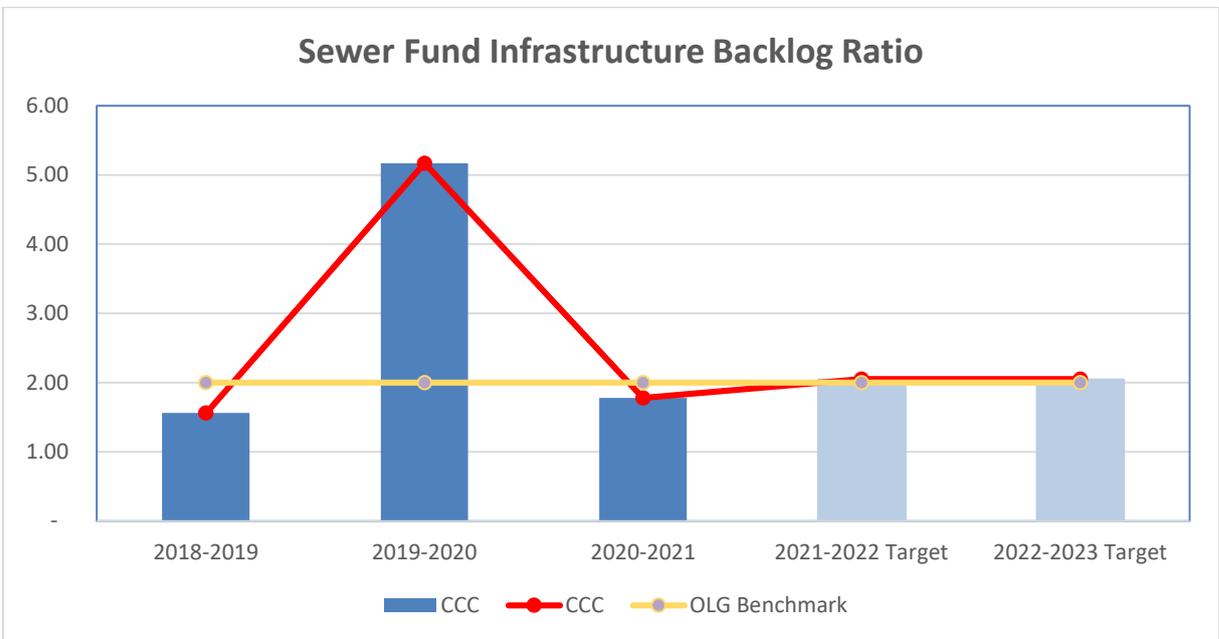
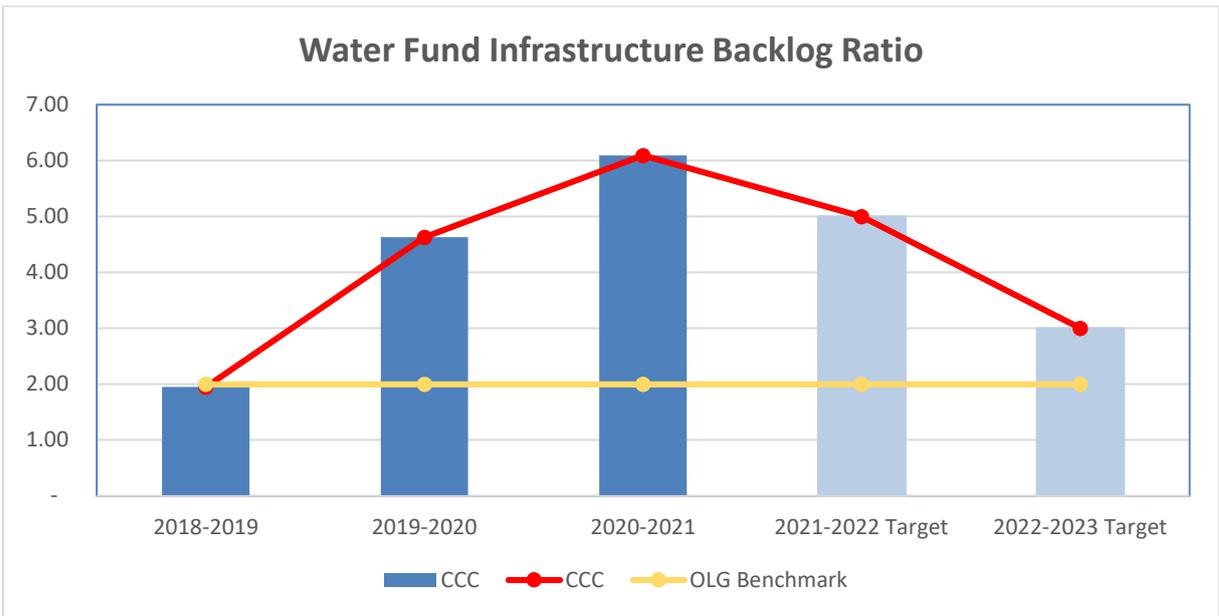
3. **Capital Program Funding** Funds available for Council’s capital program to at least equal depreciation expense in each fund. Council’s intent is to provide at least sufficient funds from operations for the capital budget to replace assets as they fall due. The depreciation target is currently used as a proxy for the long-term annual funding requirement to replace Council’s assets at their gross replacement value. Council will aim to achieve the industry benchmark of 100% in each fund.



4. **Infrastructure Backlog Ratio** less than 2% in each fund. This ratio shows what proportion the backlog is against the total value of Council’s infrastructure. Council will aim to achieve the industry benchmark of 2% in each fund. The graph below is Consolidated performance and targets for future years.

$$= \frac{\text{Estimated costs to bring assets to a satisfactory condition}}{\text{Net carrying amount of infrastructure assets}}$$





## Manage Debt Levels

Council will aim to reduce debt levels over the medium to longer term, with a focus on intergenerational equity and value for money by reducing funding costs. Emergency loans that were drawn down by Council in 2020 will be retired as soon as practicable, taking into consideration the Financial Performance and Financial Position of the General Fund.

Council recognises that loan borrowings for capital works are an important funding source. They provide the opportunity to bring unfunded projects forward and ensures the full cost of infrastructure is not to be borne entirely by present-day ratepayers.

The proceeds of any loan borrowings may only be utilised to fund the following:

- a. Land acquisitions
- b. Asset acquisitions for strategic property holding or income producing assets.
- c. Construction of new assets.
- d. Asset replacements.
- e. Asset upgrades.
- f. A specific and significant one-time asset renewal.

The term of any debt shall not exceed the expected economic life of the asset it is used to fund.

Council will consider borrowings as a source to finance timing mismatches between cash availability and expenditure requirements and to provide for intergenerational equity where determined applicable. Consideration of borrowings will be based on the needs or community demand for services and the projected capacity to pay for those services. Borrowings will only be undertaken for long-life assets that cannot be funded by annual revenue streams, thereby meeting the needs of the present without compromising the ability of future generations to meet their needs.

Proposals for borrowings must include a detailed business case and cash flow analysis showing the future impact on Council's LTFP, having regard for the Council's ability to service debt, the whole of life operating costs of the project, and the overall capacity and/or plan to deliver other future infrastructure projects.

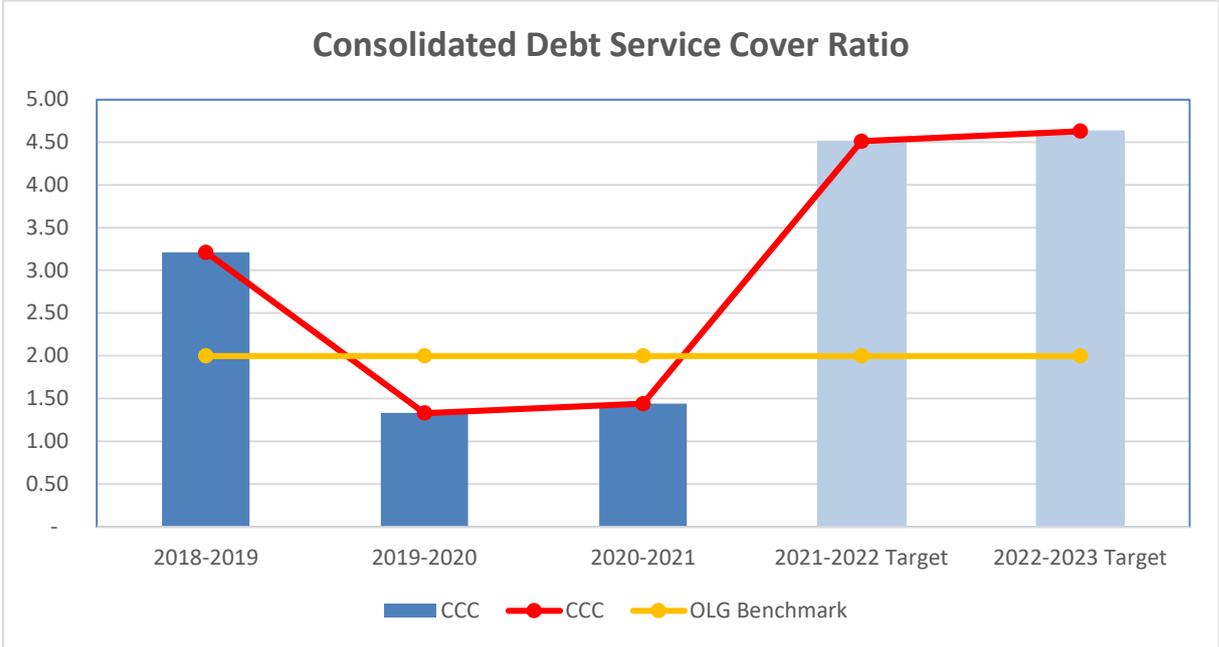
Council's utility providing funds (Water, Sewer and Domestic Waste) are more likely to access external borrowings than Council's General Fund.

Internal borrowings will be considered where funds are available, and it is determined to be more economical.

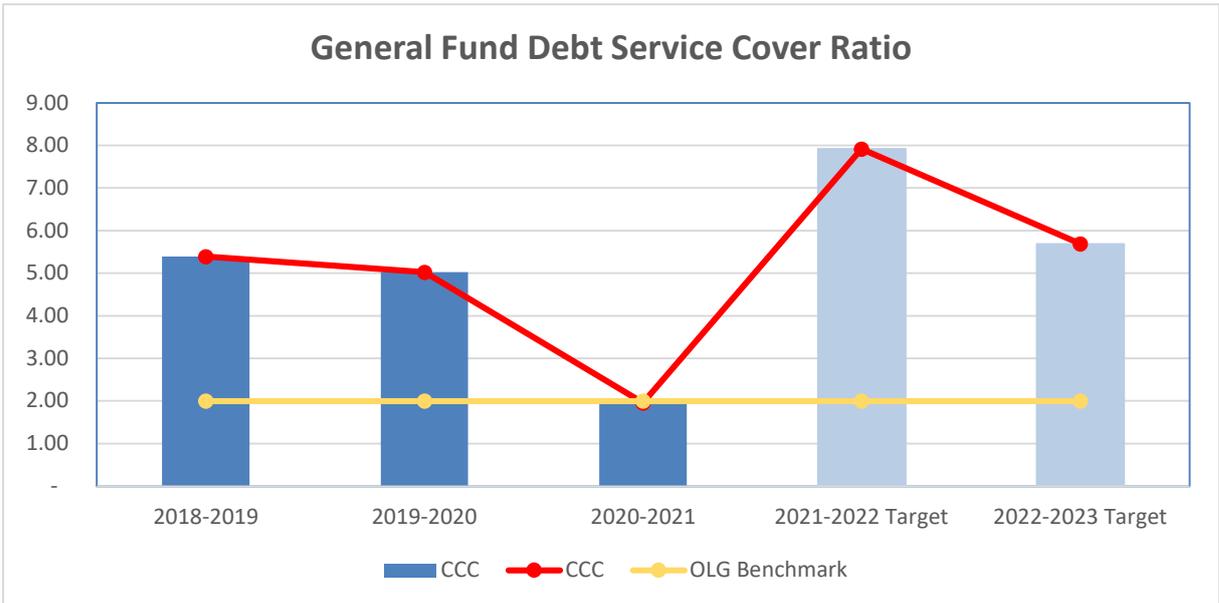
1. **Debt Service Cover Ratio (DSCR)** greater than 2x in each fund. This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. Council will aim to achieve the industry benchmark of 2x in each fund. The graph below records Consolidated performance and targets for future years.

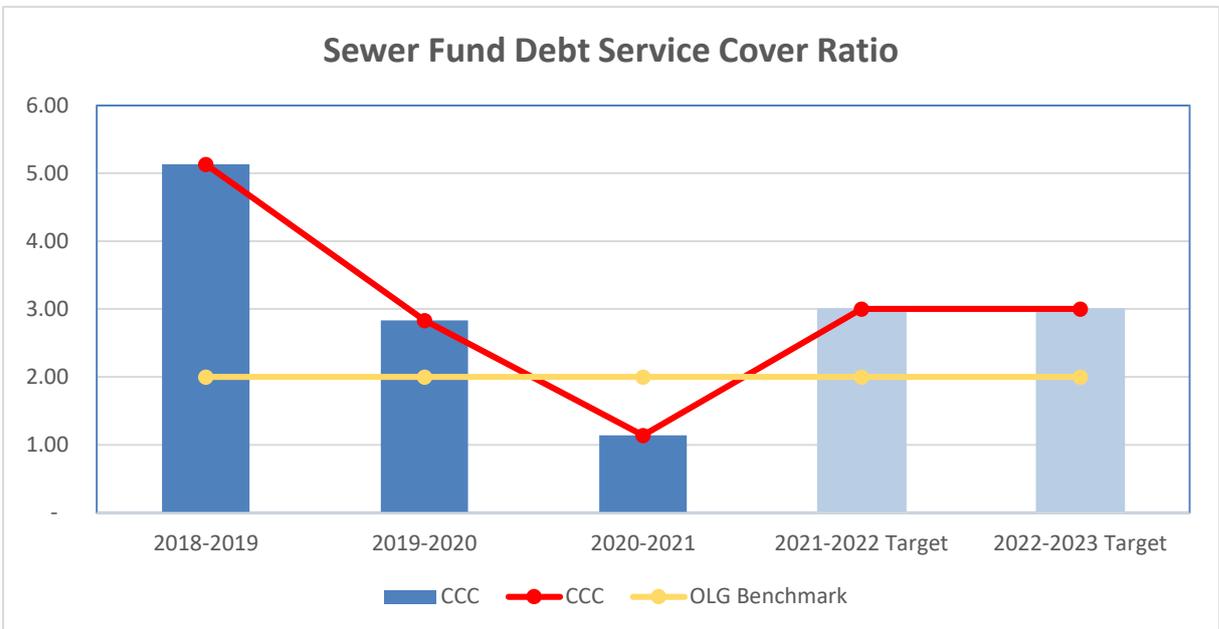
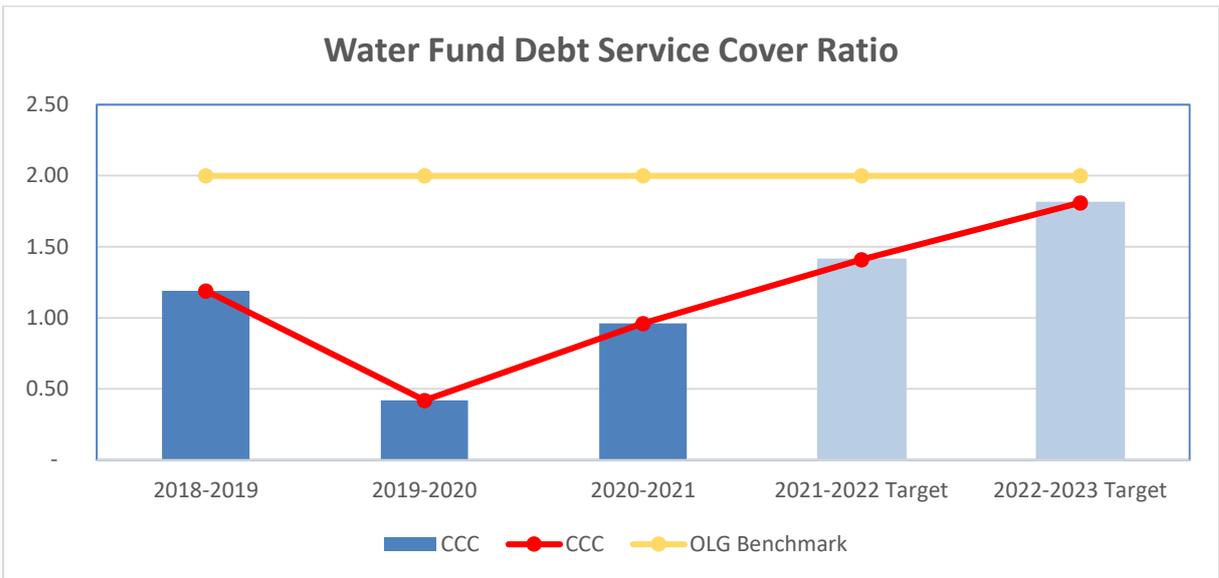
Council's DSCR by fund targets have been identified below. The Water Fund DSCR is currently below the OLG benchmark due to its income stream in relation to the nature of water assets and the debt carried for those assets.

$$= \frac{\text{Operating result before capital (excluding interest and depreciation, amortisation, impairment)}}{\text{Principal repayments and borrowing costs}}$$



and





### Reduction in Emergency Loans

As stated earlier, in late 2020 Council was required to take our emergency General Fund loans in order to reimburse restricted funds unlawfully accessed to maintain liquidity. Council’s LTFP has these loans being repaid over 10 years. Should Council perform more strongly financially across the term of the LTFP cash reserves in excess of minimum benchmarks may be used to retire a portion of this debt early.

## Maintain or Enhance Service Levels

1. Council will align service levels to its Community Strategic Plan objectives (prioritised expenditure) and prioritise best value service delivery whilst implementing efficiency improvements.
2. Council's Operational Plan will be used to determine core and value-added services, - identify, deliver and report on business improvement initiatives, and - set actions to improve service levels, costs and delivery methods.
3. 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 our customers.
4. Council will deliver procurement savings through improved strategic procurement and collaboration with other authorities and agencies.

## Reporting Cycle

Ratio	Monthly	Quarterly	Annual
Operating Performance Ratio	✓	✓	✓
Own Source Operating Revenue Ratio			✓
Unrestricted Current Ratio	✓	✓	✓
Rates, Annual Charges Outstanding Percentage		✓	✓
Cash Expense Cover Ratio		✓	✓
Assets Renewal Ratio			✓
Asset Maintenance Ratio		✓	✓
Infrastructure Backlog Ratio			✓
Debt Service Cover Ratio		✓	✓
Unrestricted Cash Position	✓	✓	✓
Loan Principal Payments	✓	✓	✓
Capital Program Funding	✓	✓	✓
Reduction of Emergency Loans			✓



Financial Strategy

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