



CP 2.3 | Strategic Financial Planning & Budgeting

Objective

The objective of this policy is to support a well-considered, consistent and strategic approach to planning for, and allocating, the financial resources required to deliver on the aspirations contained in the Strategic Community Plan.

Best practice financial management is most likely to be achieved when there is a shared understanding of the strategic approach to allocation of the City's scarce financial resources.

By providing clearly stated principles and guidance on the City's strategic financial planning and budgeting approach, this policy aims to deliver:

- financial sustainability
- responsible asset stewardship
- robust and transparent financial planning
- value for money outcomes
- accountability for resource use.

Scope

This policy applies to Elected Members and City officers involved in the development or review of the Long Term Financial Plan (LTFP) and Annual Budget. Its principles should guide the compilation of, and decision making in relation to, the Long Term Financial Plan and Annual Budget.

A principal focus for Elected Members in the financial planning process is to ensure alignment between the City's identified integrated planning and reporting framework documents and the direction they establish. Administrative staff are primarily responsible for determining the detailed line items to be included within the key financial documents, giving due consideration to strategic alignment, budget cash flow constraints, community views and statutory requirements. Elected Members then approve the resource allocations.

Policy statement

The City acknowledges that it must plan for the current and future needs of the community in a socially, culturally, environmentally and financially sustainable manner. This will be achieved through the application of the Integrated Planning & Reporting Framework which incorporates the Strategic Community Plan, Corporate Business Plan, Long Term Financial Plan, Workforce Plan and Asset Management Plans.



Through alignment between the community's aspirations, as expressed through its Strategic Community Plan, and the City's allocation of its capacity and resources (as expressed through the Long Term Financial Plan, Workforce Plan and Asset Management Plans); the City can contribute positively to stakeholders understanding and embracing its financial management approach.

1. Financial Planning Principles

This policy is founded on the following principles:

- P1** - A 'balanced budget' philosophy (modest budget closing position) is the objective over both the long and short term horizons.
- P2** - The suite of Key Financial Indicators mandated by the Department of Local Government, Sport and Cultural Industries, and industry benchmarks associated with them, are to inform deliberations in formulating long term financial plans, budgets or other financial strategies.
- P3** - Responsible accumulation and / or deployment of Cash Backed Reserves is an important part of the funding mix.
- P4** - Responsible use of debt is a legitimate option to address inter-generational equity issues in relation to long life community asset acquisitions or upgrades.
- P5** - Core services delivered must be cost and quality competitive and in line with community expectations.
- P6** - Recurrent revenues should always exceed recurrent (cash) expenditures.
- P7** - Asset renewal activities should be prioritised over the creation of new assets.
- P8** - Robust, sustainable and transparent financial planning approaches must be applied.

2. Financial Planning Horizon

The City's financial planning horizon should always be ten-years or greater. Under no circumstance, should financial planning or budgeting activities be regarded as a series of adjacent one-year time horizons.

3. Long Term Financial Plan exerts Persuasive Influence on Annual Budget

As the document that is formulated to address the strategies and deployment objectives outlined in the City's Strategic Community Plan, Corporate Business Plan, Asset Management Plans, Workforce Plan and relevant informing strategies and resourcing plans; the financial parameters and funding models contained in the Long Term Financial Plan will exert persuasive influence on the development of the Annual Budget.

The projects and initiatives in the Long Term Financial Plan and Corporate Business Plan will form the basis of the Annual Budget.

4. Dynamic Treasury Management

The City will practice dynamic treasury management - that is, the Long Term Financial Plan and Annual Budget will evolve dynamically as the impacts of Council financial decisions are known and can be factored with confidence into the predictive models.



All significant financial decisions (including changes to staffing complement) are to be evaluated and modelled over long term financial horizons.

5. Financial Sustainability

Achieving the financial capacity to deliver the services and projects which align with the community's aspirations is the primary goal of the City's financial management approach. All long term financial planning and budgeting activities that contribute towards the attainment of that objective are consistent with the desired outcomes from this policy.

6. Balanced Budget Philosophy

In order to achieve long-term financial sustainability, the City will deliver either a balanced budget or, ideally, a positive budget closing position. The City will target a Budget Closing Position of between 1% and 3% each year, where this is possible.

The City will also target the achievement of the suite of Key Financial Indicators mandated by the Department of Local Government, Sport and Cultural Industries, and industry benchmarks associated with them.

Operational budgets should be produced using the principles of zero-based budgeting, notwithstanding that they may be informed by previous year experience and known cost increments.

7. Reserve Funds

Addressing the challenges of inter-generational equity refers to the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life. That is, more evenly spreading the financial burden between current and future ratepayers who will enjoy the benefit.

This may be managed through the long term financial management process by responsible use (accumulation or deployment) of cash backed reserves.

Decisions in relation to whether to use or accumulate Cash Backed Reserves must always be made by considering a ten-year time horizon.

Cash-backed specific purpose reserve accounts should be established to help mitigate financial risk and, where appropriate, to spread the financial burden. The purpose for each Cash Backed Reserve will be documented to ensure the use of funds is transparent.

Policy 2.4 - Cash Backed Reserves provides important guidance in relation to how Cash Backed Reserves may be used to the greatest advantage of the City in achieving its strategic objectives.

8. Loan Borrowings

The responsible use of debt as a funding option must be a seriously considered long term funding option for the City when developing its long term financial plans.

The ability to borrow at preferential interest rates on a fixed rate basis through WA Treasury Corporation, is a unique opportunity afforded to local governments, and as such, should be taken.



Guided by the debt covenants referenced in Policy 2.5 - Use of Debt as a Funding Option, the City should supplement its strategy to address intergenerational equity considerations, through the responsible use of borrowings to fund the acquisition or enhancement of long life community assets.

9. External Funding

The City will adopt a philosophy of continuously engaging with State and Federal governments, other quasi-government entities and private party contributors to leverage all relevant grant funding opportunities - to ensure that contributions towards the cost of infrastructure projects and service delivery are equitably supported by both external funders and ratepayers.

10. Funding Priorities

The City recognises the competing demands for limited financial resources and will endeavour to allocate resources in accordance with the objectives of this Policy.

Prioritisation of funding allocation will be based on the following:

- Activities to comply with statutory obligations or standards.
- Renewal, upgrade or maintenance of existing infrastructure assets as supported by the Strategic Asset Management Plans and related projects prioritisation processes.
- Capital projects supported by a significant external funding contribution.
- Current operational funding for programs, unless the operational need for any of those programs has been superseded or modified by a service review process.
- New programs or assets as supported by the Strategic Asset Management Plans and related projects prioritisation processes.
- New operating projects or initiatives that are supported by a significant external funding contribution.
- Council decisions for programs and projects based on the current service levels required by the community or advised by City staff.

11. Rates Methodology

The City will apply a differential rating approach to the rateable land within the district. In implementing systems and procedures to ensure that rates are determined based on the predominant use of the land, the City will observe the principles of:

- Objectivity
- Fairness and Equity
- Consistency
- Transparency
- Administrative Efficiency.



These principles are explained in the table below.

Principle	Interpretation
Objectivity	The predominant use of land should be reviewed and determined on the basis of an objective assessment of relevant criteria. External parties should be able to understand how and why a particular determination was made.
Fairness & Equity	Rating principles should be applied fairly and equitably. Each property should make a fair contribution to rates based on a method of valuation that appropriately reflects predominant use.
Consistency	Rating principles should be applied, and determinations should be made, in a consistent manner. Like properties should be treated in a like manner.
Transparency	Systems and procedures for determining the method of valuation of land should be clearly documented and available for the public to inspect. This is fundamental to the “good government” principle upon which the Act is based. The right to govern accompanies the obligation to do so openly and fairly.
Administrative Efficiency	Rating principles and procedures should be applied and implemented in an efficient and cost-effective manner.

The City’s approach to rate setting is described in detail in the City of Perth Rates Methodology document. This is to be the guiding document for rate setting activity unless varied by either legislative change or by resolution of Council.

The City's Rates Methodology indicates that rates will be developed on a general rate (rate in the dollar) increase of Perth CPI adjusted where appropriate, an additional amount based on required funding to meet community service levels and expectations as identified and approved through the Long Term Financial Planning process.

The contrasting methodologies to be applied in GRV revaluation years and non GRV revaluation years are documented in the Rates Methodology document.

In determining the required funding to be raised from Rates, the City will have regards to Local Government Operational Guidelines - Number 08 ‘Opening and Closing Funds used in the Annual Budget’.

As part of the Rate Setting process each year, the Rates Methodology document and proposed Differential Rating Models (including the statement of objects and reasons for differential rates categories) will be presented to Council at an Elected Members workshop before being formally considered for advertising by Council.



12. Service Levels

Service levels are to be periodically reviewed to establish best value for money by considering the balance between community demand, resource and funding requirement and price.

Services provided by the City should be critically reviewed through the service unit planning process to test the following:

- Should the City's role be that of advocate, facilitator or provider?
- Should the service be provided by the City (are there alternative providers?)
- Is a co-sourced or out-sourced delivery model more appropriate?
- Are the current / proposed service levels appropriate?
- Can the required staffing requirements be met without adversely impacting on other Council priorities?

13. Fees & Charges

Existing fees and charges are to be reviewed annually with consideration to be given to statutory limits, inflation and employee cost index.

As a general principle, the City adopts a 'user-contributes' approach to setting its fees - whilst giving consideration to community expectation of the level of services and their capacity to pay.

Factors that are to be considered when reviewing fees and charges include:

- Regulatory provisions - Sections 6.17 and 6.38 of the Local Government Act 1995
- The full cost of the provision of the goods and services
- Benchmarking against other Local Government peers offering comparable services
- Market rate comparisons if there are other providers for the service
- Optimisation of return on Council commercial property
- CPI for Perth (All Groups) and or WALGA Local Government Cost Index
- The level of any subsidy that the City's may have chosen to provide for either community or economic stimulus purposes.

The City also acknowledges the requirements of the National Competition Policy and will ensure compliance by regularly reviewing its fees, charges and service offerings to identify whether these require adjustment to ensure that they do not create or have the potential to create unfair competition with the private sector.

14. Capital Project Proposals

The City's infrastructure, property and equipment assets are used to deliver important community services and the City's strategic goals. Asset Management strategies and plans are informed by, and in turn inform, the aspirations and service requirements in the Strategic Community Plan.

The development of meaningful asset management plans is essential to delivering on the City's strategic direction, service plans, projects and operational plans.



Integrating Asset Management with robust long term financial plans and annual budgets is an essential part of long term financial planning.

When developing the City's draft Long Term Financial Plan, due consideration must be given to the indicative asset management ratios disclosed in that plan for Asset Sustainability, Asset Consumption & Asset Renewal Funding, In the event that the indicative asset management ratios disclose a trend which is outside that expected of a responsibly managed local government, Council must reconsider the capital project mix and assign a greater priority to asset renewal works.

Prioritisation of proposed capital projects should be in accordance with the principles noted in Clause 10 of this policy.

In general, the distribution of the proposed funding allocation for capital projects should be:

- Asset Renewal - 40% to 45% Minimum, ideally close to the annual depreciation amount
- Major Projects Discretionary - 40% to 45% (Approved & Conceptual Projects)
- Discretionary (Minor Capital) - Residual (ideally 10% or less)

Capital works planning should resist repeated outcomes where the consumption of assets exceeds asset renewal or replacement (depreciation is greater than renewal and maintenance expenditure) other than in exceptional circumstances.

All proposals for capital works should be accompanied by a project plan that clearly articulates:

- Links to the Community Strategic Plan / Council Priorities.
- Alignment with Asset Management Plans or other critical informing strategies.
- Assessment of community / organisational impact.
- Measurable outcomes / outputs.
- Achievement of Risk Management Objectives - relating to extreme or high risks
- Synergies with other major capital initiatives.
- Potential future revenue streams or cost savings.
- Full life cycle costs.
- Evidence of external funding efforts and articulation of funding successes and grant funding obligations.
- Cash flow implications for the project.
- Realistic timelines and deliverables with appropriate consideration of organisational capacity.
- Details of any significant financial contingencies included in the costing and the project phase to which they relate.



15. Provisional Allocations - Discretionary Funding

To provide clarity and certainty in relation to discretionary funding allocation for Grants, Donations and Sponsorships, a specified provisional allocation of eligible own source revenues will be made annually.

Eligible own source revenue for the purpose of calculating this provisional allocation includes the aggregate annual budget total of the following:

- Rates - excluding interim and back rates, rubbish service charges, pool inspection fees and emergency services levy.
- Parking Revenue inclusive of Fines and Associated Costs.

The provisional allocation will be:

Funding Source	Allocation %
Eligible Own Source Revenue	3.00%

The allocation of funds from the provisional funding pool to individual sponsorships, grant and donations will be in accordance with Policy 4.3 - Sponsorships & Grants and will be subject to final ratification by Council.

16. Commercial Operations - Parking

The City's parking operations play an important role in contributing to the funding mix that supports the Long Term Financial Plan and Annual Budget. Without the current level of contribution from the Parking business, funding demand from Rates may necessarily increase.

This observation does not necessarily preclude Council pulling financial levers to generate economic activity - it merely acknowledges that with every economic intervention (such as free parking) there is a financial consequence that must also be managed.

The City's parking operations, and the resultant relationship between economic stimulus, community support and generating financial surpluses to support important community initiatives is a fundamental part of the City's financial model.

Whilst the Parking Services business plan is a separate initiative outside the parameters of this policy, the ongoing interaction between the imperatives of the Parking Services Business Plan and the City's Long Term Financial Plan funding model must continue to be monitored, understood and responded to in a strategic fashion.



17. Commercial Operations - Property Portfolio

The City's property portfolio operations play an important role in contributing to the funding mix that supports the Long Term Financial Plan and Annual Budget.

Without the current level of contribution from the commercial property business, funding demand from Rates may necessarily increase. Again, this observation does not necessarily preclude Council acting to generate additional economic activity or desired community outcomes from the City's commercial property portfolio - it merely acknowledges that with every economic intervention, there is a financial consequence that must also be managed.

Whilst the City's commercial property operations, and the resultant relationship between economic stimulus, community support and generating financial surpluses to support important community initiatives is a fundamental part of the City's financial model, Council may opt to rationalise certain property holdings to create a new discretionary funding stream to support the funding model.

Whilst the Commercial Property Portfolio business plan is a separate initiative outside the parameters of this policy, the ongoing interaction between the imperatives of these operations and the City's Long Term Financial Plan funding model must continue to be monitored, understood and responded to in a strategic fashion.

18. Timetable

An indicative timeline for the development of the Long Term Financial Plan and Annual Budget, including Council touchpoints and decision-making steps involved is provided to Council annually at the commencement of the process.



Document control

Policy context

Legislation, standards & external guidelines	<i>Local Government Act 1995</i> – Section 5.56, Section 6.2 <i>Local Government (Financial Management) Regulations 1996</i> – Part 3
Policies and procedures	Related Policies 2.4 & 2.5
Strategies, plans and frameworks	

Document custodian

Alliance	Corporate Services Alliance	Service unit	Finance Services
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Review management

Next review due	August 2026	Document management ref.	EDRMS-1336483316-830
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Document management

Version	Adopted by	Adoption date	Synopsis of changes
1.0	Ordinary Council Meeting	23 February 2021	Initial policy submitted for approval.
2.0	Ordinary Council Meeting	29 August 2023	Amended Policy considered by Council.