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# Financial Strategy 2016

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OCT 2016

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Adopted 19 October 2016

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Version	Adoption date
v01	February 2012
v02	May 2016
v03	October 2016

## Executive Summary

The Financial Strategy has been prepared as part of Berrigan Shire Council's overall Integrated Planning and Reporting model. Along with the Asset Management Strategy, the Financial Strategy is designed to inform the preparation of the Council's Long Term Financial Plan (LTFP), itself a part of the Council's Resourcing Strategy.

The financial strategy provides guidance on the financial 'assumptions' or objectives that will guide the development of the LTFP. By establishing a financial strategy, the Council can demonstrate where it wishes to progress and the goals it wishes to achieve.

The Financial Strategy can be broken down into the following components:

- A brief review of the Council's current position – demographically, economically and financially
- A brief analysis of the Council's activities and future plans – especially the Community Strategic Plans and the Asset Management Plans.
- A set of financial objectives that the Council aims to achieve while delivering on its future plans
- Actions that will assist in meeting financial objectives
- A set of indicators and targets to measure progress against the objectives.

## Objectives

The Financial Strategy identifies three key objectives:

1. Financial sustainability
2. Cost effective maintenance of infrastructure service levels
3. Financial capacity and freedom

## Actions

To achieve these objectives, the Council has identified 17 core actions.

**Table 1 - Core actions**

1.1	Prepare and review annually a Long Term Financial Plan with the aim of achieving the financial objectives identified in this strategy.
1.2	Prepare Capital Expenditure Reviews, including an assessment of lifecycle costs, for all new and/or upgraded infrastructure assets – with the exception of upgrades of roads, water mains and sewer mains.
1.3	Resist the pressure to fund services that are the responsibility of other levels of government.
1.4	Retain control of urban water supply and sewer services.
1.5	Recognise that funding for renewal and upgrading of sport, recreation and cultural infrastructure requires a combination of Council funding, community support and preferably some contribution from other levels of government.
1.6	Seek methods of achieving a return (or at least minimise ratepayer subsidy) on business activities such as the Finley Saleyards, Tocumwal Caravan Park and Tocumwal Aerodrome. Subsidies to programs such as the private operation of the Tocumwal Visitor Information Centre should also be reviewed regularly.
1.7	Encourage and support the existing model of community provision and operation of sport, recreation and cultural infrastructure.
1.8	Actively lobby the State and Federal Governments to retain existing grant funding levels for road maintenance and upgrades.
2.1	Prepare and review its Asset Management Strategy and its Asset Management Plans for the Council's major infrastructure assets annually as part of annual budget preparation.
2.2	Prioritise the renewal of existing assets over the development and delivery of new services.
2.3	Regularly review the suitability and/or usage of community services and facilities and consider alternate delivery methods.
2.4	Implement a Borrowing Policy that allows the Council to borrow only for the development of infrastructure where <ul style="list-style-type: none"> <li>○ There is an urgent need for the asset in the short term, or</li> <li>○ It is most cost-effective to construct the asset in the short term (as opposed to waiting until sufficient on-hand funds are available), and</li> <li>○ The Council has access to a funding stream to meet its debt obligations without compromising its other activities.</li> </ul>
3.1	Formalise the Council's existing preference to put money aside for future capital works, rather than borrow.
3.2	Maintain the existing Investment Policy settings prioritising preservation of capital over investment return.
3.3	Retire existing debt in line with existing loan repayment schedules. Once paid, quarantine the repayment stream freed up to fund future capital renewal projects or specifically identified programs.
3.4	Continue to actively recover outstanding rates debt as identified in the Council's Revenue Policy.
3.5	Set utility charges for water supply, sewer and waste management services at a level that delivers a return on those assets sufficient to ensure long term sustainability.
3.6	Consider seeking a Special Rates Variation where there is a clearly identified demand for new or significantly improved service levels.

## Performance Measures

Berrigan Shire Council will measure whether or not this strategy achieves its objectives using following indicators and performance measures

These measures have been selected as ones common across local government and able to be derived simply from the Council's existing financing reporting systems.

**Table 2 - Performance measures**

<b>Financial Objectives</b>	<b>Strategy</b>	<b>Possible Indicators</b>	<b>Performance Measures/Target</b>
1. Financial sustainability		Operating Performance Ratio	Greater than 0% across any five year period
		Unrestricted Current Ratio	At least 2x
		Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	To remain under 8% as at 30 June each year
2. Cost effective maintenance of infrastructure levels	effective of service	Building, Infrastructure & Other Structures Renewals Ratio	To remain over 100% on average over life of the LTFP.
		Infrastructure Backlog Ratio	To remain at less than 2% at all times
		Capital Expenditure Ratio	On average should be at least 100%
3. Financial capacity and freedom		Debt Service Cover Ratio	Greater than 2.00 x
		Cash Expense Cover Ratio	No less than three months cover

## General Principles

This financial strategy has been prepared to assist in the development of the Council's Community Strategic Plan (CSP), Long Term Financial Plan (LTFP) and other plans and strategies required under the Council's Integrated Planning and Reporting (IP&R) framework.

### Legislative requirements

The recent amendments to the *Local Government Act 1993* make it clear that Councils must apply the principles of sound financial management to its activities and operations. These principles have been incorporated into the Council's financial strategy

Sect 8A of the *Local Government Act 1993* states:

*The following principles of sound financial management apply to councils:*

*(a) Council spending should be responsible and sustainable, aligning general revenue and expenses.*

*(b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.*

*(c) Councils should have effective financial and asset management, including sound policies and processes for the following:*

*(i) performance management and reporting,*

*(ii) asset maintenance and enhancement,*

*(iii) funding decisions,*

*(iv) risk management practices.*

*(d) Councils should have regard to achieving intergenerational equity, including ensuring the following:*

*(i) policy decisions are made after considering their financial effects on future generations,*

*(ii) the current generation funds the cost of its services.*

### General assumptions

This strategy is necessarily based on the actions implicit in the Council's existing CSP and Workforce Development Plan – i.e. its current operating environment. These plans are due for review by the incoming Council however this strategy anticipates no significant change to either plan.

Any significant change to the Council's CSP or Workforce Development Plan, and therefore the aims and operations of the Council, will require a review of this strategy and/or the incorporation of appropriate scenario and/or sensitivity analysis.

## Where are we now?

Berrigan Shire is a rural community on the New South Wales and Victorian border with an economy based largely around irrigated agriculture and to a lesser extent, tourism. The Shire has an estimated population of 8,501, growing at just under 1% per annum.<sup>1</sup>

Berrigan Shire has four towns. The Murray River border towns of Tocumwal and Barooga support a range of tourism, leisure and lifestyle services while the “inland” towns of Berrigan and Finley service the surrounding dry land and irrigated farming districts.

Recent population growth has been in the Murray River border townships of Barooga and Tocumwal attracting families to lifestyle blocks and retirees from metropolitan Melbourne.

## NSW Treasury Corporation assessment

In 2013, the NSW Treasury Corporation (TCorp) prepared an independent Financial Assessment, Sustainability and Benchmarking Report on Berrigan Shire Council.<sup>2</sup>

The report made the following observation on the financial management of the Council.

*The Council has been well managed over the review period based on the following observations:*

1. *Council has recorded near breakeven operating positions in most of the review years*
2. *Most of its financial indicators were above benchmark indicating it had sufficient liquidity and able to service its debt*

When considering the Council’s long term financial sustainability, TCorp made the following comments:

*TCorp believes Council is currently in a moderately Sustainable position. Council’s operating position was in small surpluses or close to breakeven positions in the review period. It is forecast to report operating surpluses in the next 10 years with an adequate but declining level of liquidity.*

*In considering the longer term financial Sustainability of the Council we make the following comments:*

1. *Council’s current LTFP for its General Fund forecasts operating surpluses in most years of their forecast but this is expected to gradually decline. Operating revenue is forecast to increase at a lesser rate than operating expenses, but this may be at least partly due to conservative forecasting of revenue increases.*
2. *Council will need to continue to improve its AMP so the community’s view on the desired level of service can be collected and reflected in the AMP. This will then need*

<sup>1</sup> <http://forecast.id.com.au/berrigan/home>. Retrieved 27 September 2016

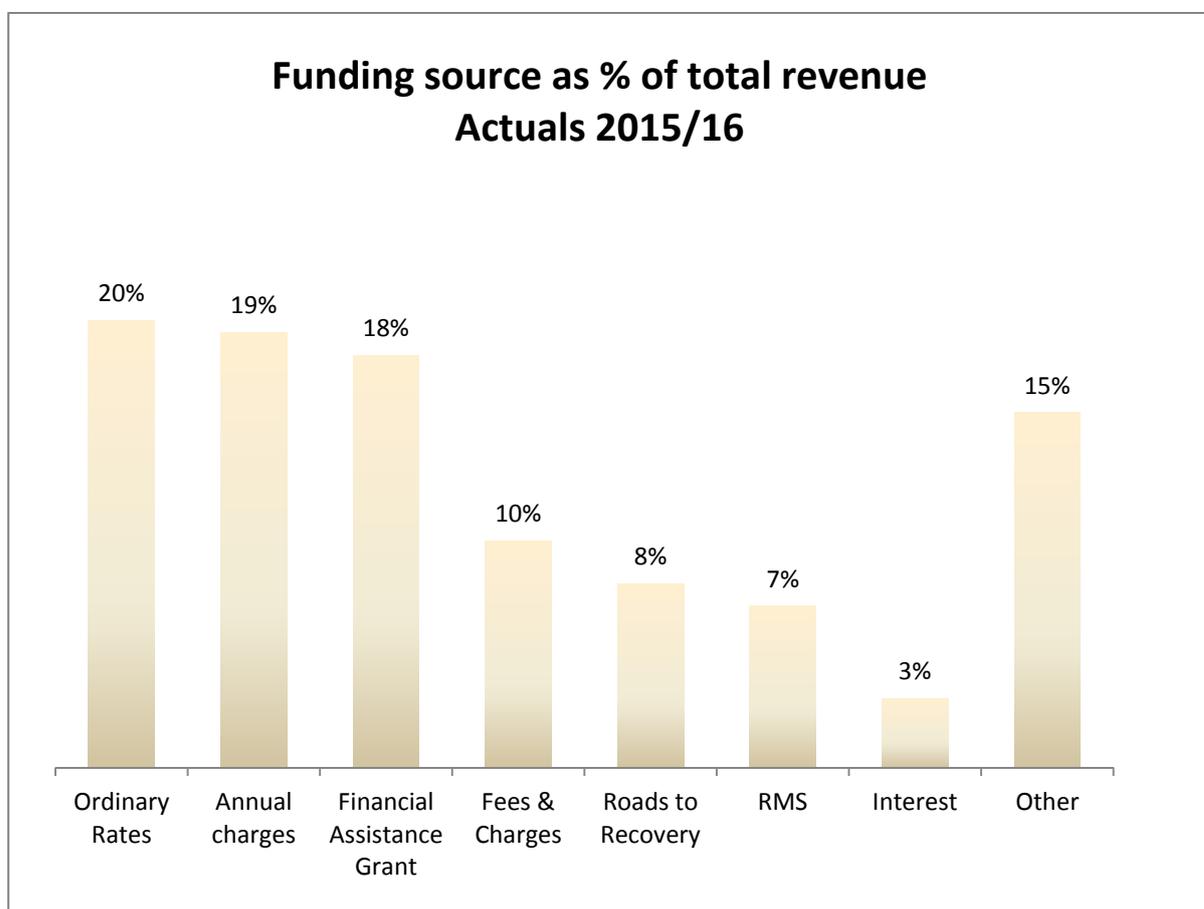
to be integrated with the LTFP. Council's first version of the Road, Streets and Bridges AMP was completed in October 2009 and it is now due for review.

3. Council is reliant on external sources of funding. Its long term Sustainability is dependent on continuing support from other levels of government. While significant changes in grants and contributions are not expected, a decrease in external sources of funding will impact Council as it has limited own revenue sources.

These observations and comments have been incorporated into the Council's Financial Strategy and other long term plans.

## Funding

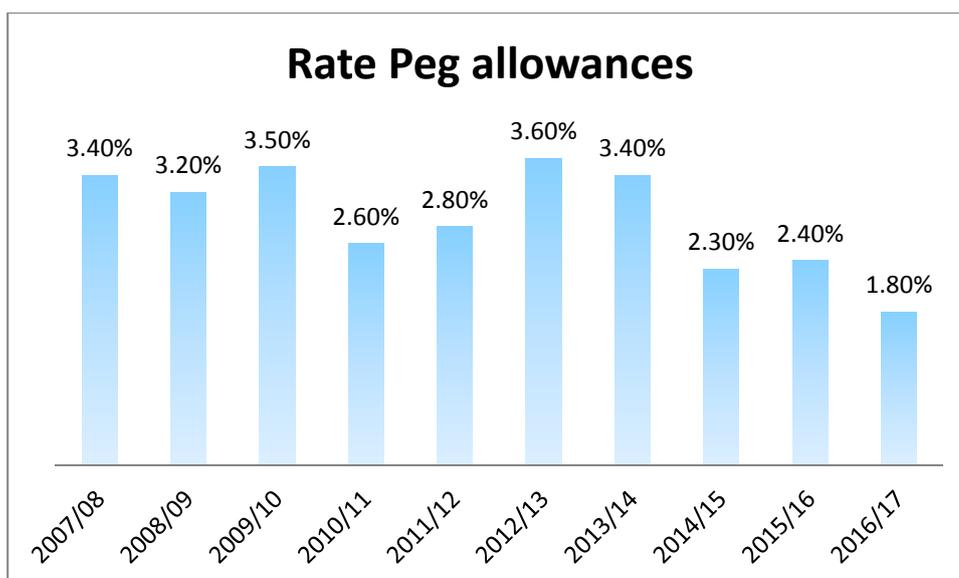
The following figures provide a summary of the source of Council's funds. Approximately 78% of Council's income is subject to rate pegging and external regulation or control. As a result, the Council does not have much discretion over the revenue it raises.



**Figure 1 - Funding Source as a percentage of total revenue**

Council does not anticipate significant growth in rateable properties. Growth in the Council's Ordinary Rate Revenue will need to come from Rate Peg increases set by the Independent Pricing and Regulatory Tribunal (IPART).

As seen in Figure 2, since 2002/03 Rate Peg allowances have ranged between permissible increases of 1.8% and 3.6%. The Council does not expect the Rate Peg to move much outside the lower end of this range.



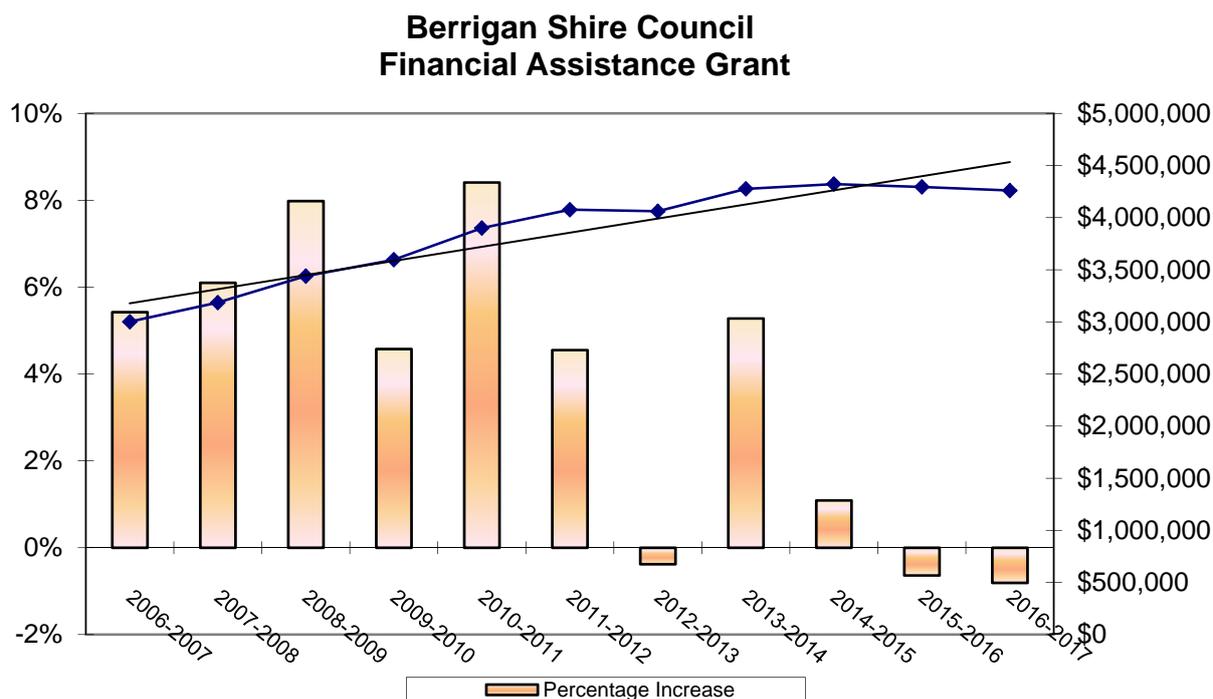
**Figure 2 - Rate Peg allowances**

The Office of Local Government (OLG) and the Independent Pricing and Regulatory Tribunal (IPART) have proposed some changes to the rating system in place across NSW local government. This includes a move to a Capital Improved Valuation (CIV) rating method and other changes to concessions and collection methods.

These proposed changes are unlikely to change the amount of revenue raised by the Council or offer the Council more discretion in setting its own rates and charges and as such this strategy assumes that the current rating system in place will continue until 2016/27.

Berrigan Shire Council has little control over the amount of Financial Assistance Grant (FAG) it receives, with a complex formula distributing the state-wide amount set by the Federal Government across NSW Councils. In 2014/15, the Federal Government announced a three-year “pause” in FAG indexation, which has had the effect of reducing the Council’s untied revenue available for discretionary expenditure. The effect of the “pause” can be seen clearly in Figure 3 below.

While the “pause” expires in 2017/18, it is unlikely that growth in FAG will be as consistent as it was in the 2000s and early 2010s.



**Figure 3 - Financial Assistance Grant payments to Berrigan Shire Council. Source: NSW Grants Commission**

Berrigan Shire Council uses Roads to Recovery (R2R) (7%) and Roads and Maritime Services (RMS) funding (8%) to maintain its extensive rural and urban road network. Any reduction in the amount of these grants will significantly impact the Council's ability to maintain its existing road infrastructure service levels.

The Federal Government in particular has increased funding for programs such as R2R in recent years as part of the general trend to reduce general purpose unpaid grants and increase tied funds for projects such as road construction. The Council expects this trend to continue – meaning capital works on roads will continue to increase while other projects such as upgrades of community facilities may be left behind unless specific grant funding can be found.

Approximately 19% of Council's is derived from its utility services and investments. Utility charges for water supply, sewer and waste management services are set at a level that delivers a return on those assets.

Interest and investment income makes up around 3% of the Council's total revenue. The Council traditionally takes a conservative approach to investment income. Berrigan Shire Council's *Investment Policy 2015* makes the following statement.

*Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. [...] Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.*

The Council is a “price-taker” with regard to its investment returns with interest rates determined by the market. At present, the vast majority of the Council’s investments are in Term Deposits with institutions under the oversight of the Australian Prudential Regulation Authority. The Council also has some of its short term funds in New South Wales Treasury Corporation (TCorp) investment products. The Council plans to take advantage of other TCorp products, especially with some of its longer term investments – in order to take advantage of better returns.

Interest rates and investment returns are at historic lows and the Council expects this will continue in the short to medium term, depressing investment income from historic highs seen between 2010 and 2012. On the other hand, the amount of cash reserves available to the Council to invest continues to increase, especially in the Council’s water and sewer funds.

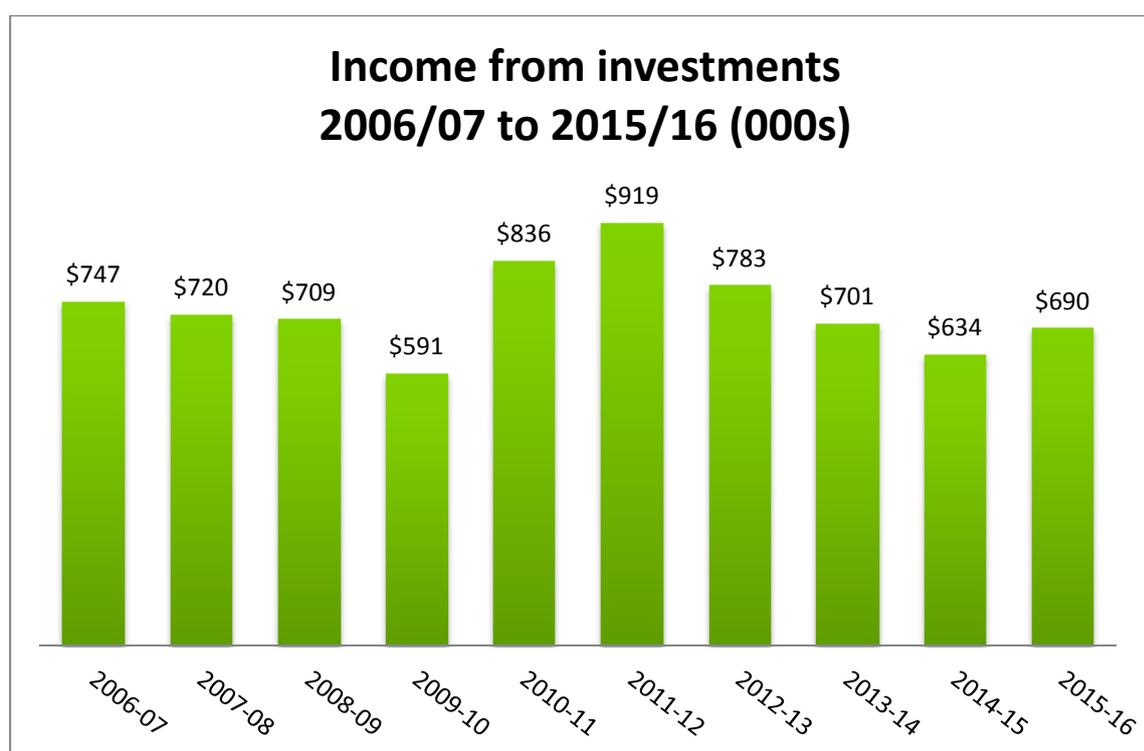


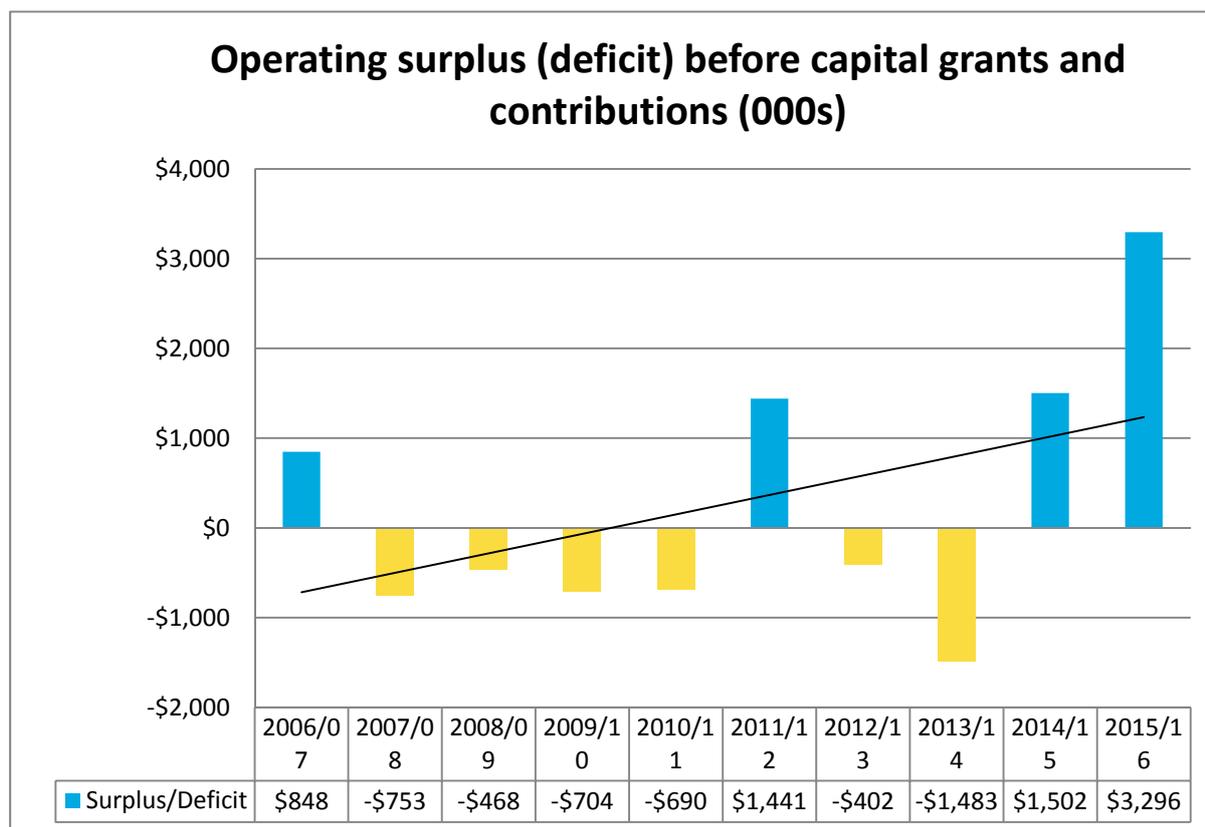
Figure 4 - Investment income 2006/07 to 2015/16. Source: Note 3, Annual Financial Statements

### Operating results

Since 2007/08 – when the Council started to bring its previously acquired infrastructure assets and subsequent depreciation to account – the Council has gradually improved its operating position to move from small operating deficits to moderate operating surpluses as can be seen by the trend line in Figure 5 below. The exception to this rule was between 2011/12 and 2013/14 when the accounting treatment for advance payments of FAG artificially distorted the operating results – firstly positively and later negatively.

The improvement to the Council’s operating result has been the result of the Council

1. Recovering costs where possible for services.
2. Minimising exposure to losses from commercial activities
3. Minimising duplication of facilities where possible.



**Figure 5 - Operating surplus/deficit 2006/07 to 2015/16. Source: Annual financial statements**

### Working capital

At 30 June 2015, the Council had \$6.0 million in unrestricted working capital. The Council's unrestricted working capital are those funds available to meet its future spending requirements after making allowance for any restrictions in place over the use of such working capital.

Unrestricted working capital is required not just for future infrastructure works but also to meet items such as staff leave entitlements and to allow a buffer for day-to-day Council operations.

Since 2007/08 the Council has steadily increased and then maintained its unrestricted working capital.

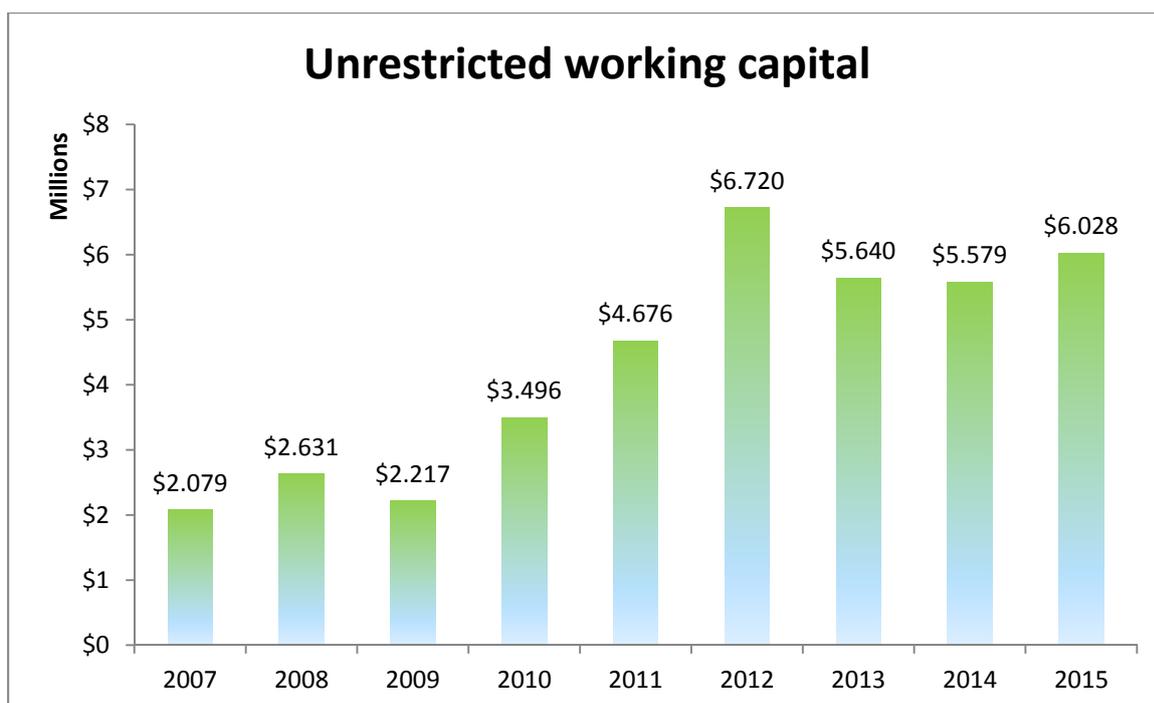


Figure 6 - Working Capital. Source: Auditors reports – Annual Financial Statements

## Expenses

The chart below provides a summary of the Council's operating expenses by type. Employee costs, Materials and Contracts, and Depreciation make up the majority of the Council's operating costs.

As can be seen, the largest expenditure item for the Council is employee costs – overwhelmingly consisting of wages and salaries.

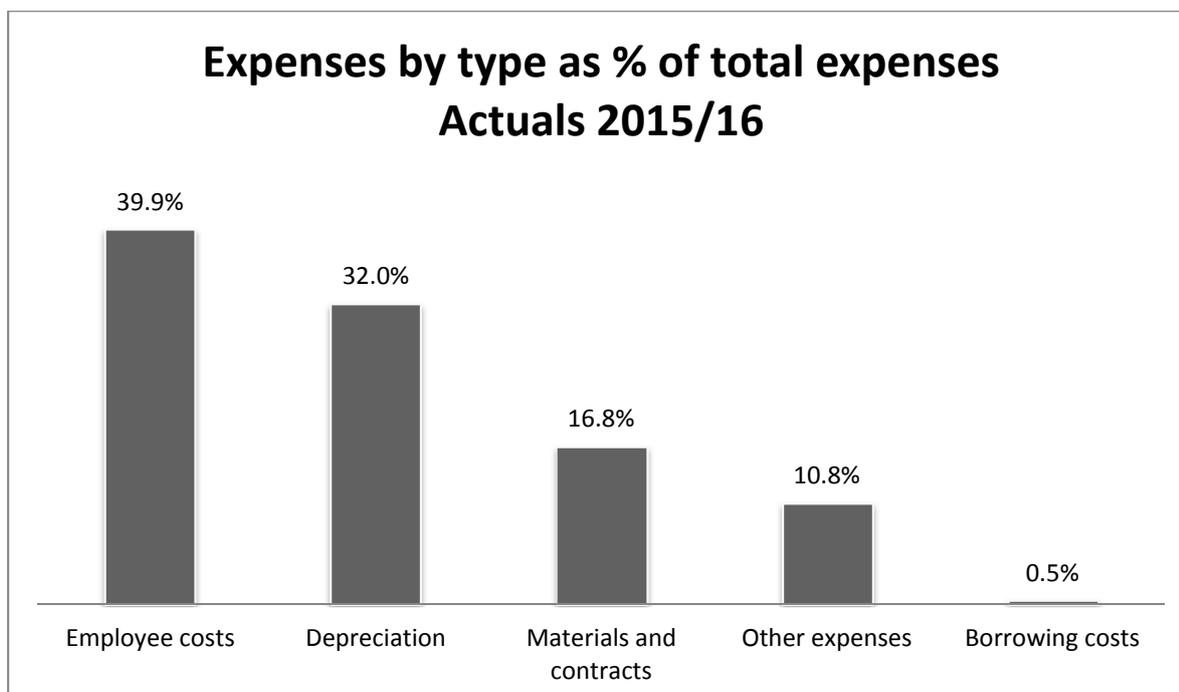


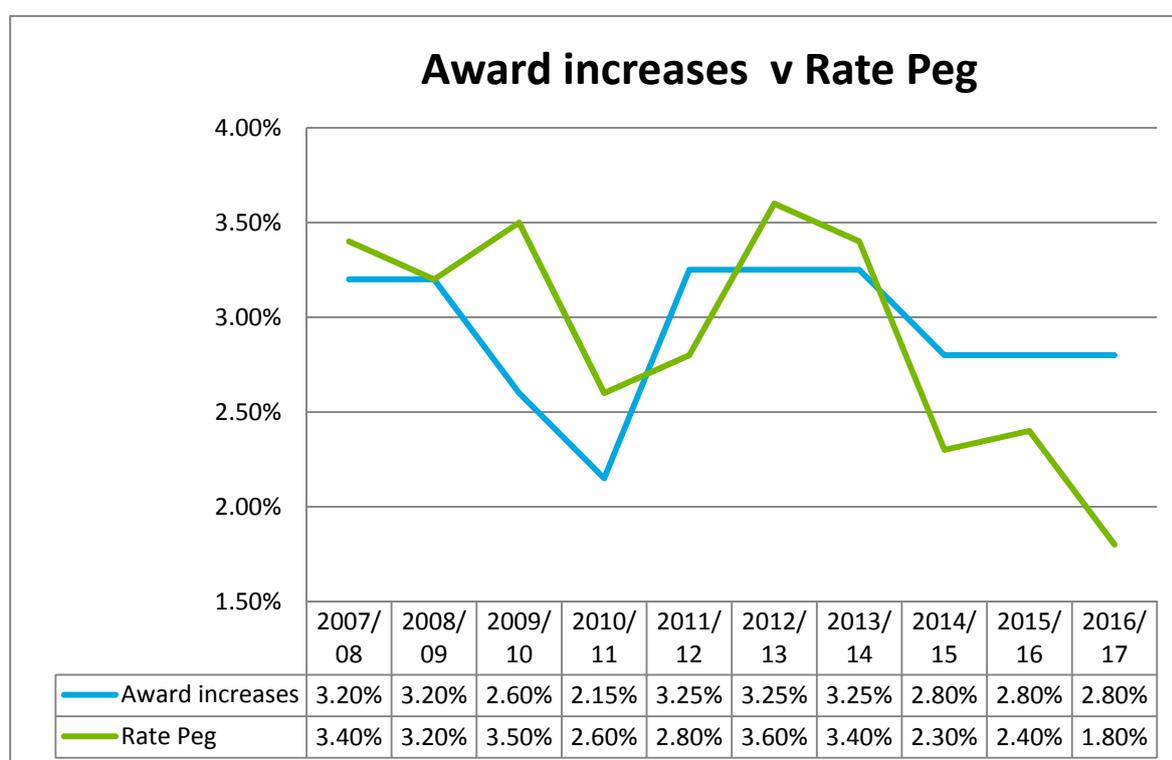
Figure 7 - Expenditure by type. Source: 2015/16 Income Statement

The Council's wages and salaries expense is influenced by two major factors:

- The number of staff employed
- The wage and salary rates payable

The Council's Workforce Development Plan does not identify any significant increase in staff numbers and the Council's Community Strategic Plan does not identify any new services likely to require additional staff. As such, this strategy assumes that staff numbers will remain static

Berrigan Shire Council operates under the *NSW Local Government Award 2014*. The Award sets out the annual increase in wage rates and salaries that the Council is obliged to pay its workforce. The annual increase has been agreed for 2016/17 and negotiations for the 2018 Local Government Award are underway.



**Figure 8 - Award Increases. Source: Independent Pricing and Regulatory Tribunal and Local Government (State) Awards**

Note that in general, the net amount received from the Council general rate peg allowance is not sufficient to meet its additional wages and salary expense. The Council expects wages and salaries to increase by around 2.5% per annum in the medium term.

Materials and contracts will increase as a result of inflation. The Reserve Bank has indicated that its medium-term target for inflation is between 2-3% on average, as measured by the Consumer Price Index.<sup>3</sup> Given the unique cost pressures on local government, for the Council's purposes the Local

<sup>3</sup> <http://www.rba.gov.au/inflation/> Retrieved 27 September 2016

Government Cost Index prepared by IPART provides a more specific measure of inflation as it affects this Council.<sup>4</sup> The Council estimates that its costs will increase by around 1% more than CPI.

On the revenue side, the Council makes the assumption that the rate peg will continue to be set in reference to the Local Government Cost Index (i.e. a measure of inflation). It also makes the assumption that – post-“pause” – FAG will be increased more-or-less in line with inflation.

Depreciation expense is simply a method of allocating the cost of assets across multiple accounting periods (i.e. financial years) and as such is discussed in detail in the Asset Management section below.

## Asset condition

One method of assessing the condition of the Council’s assets is to measure how much the Council asset has been depreciated down from its “as new” condition. This gives a rough guide as to how much of the original service potential or productive capacity remains in the asset.

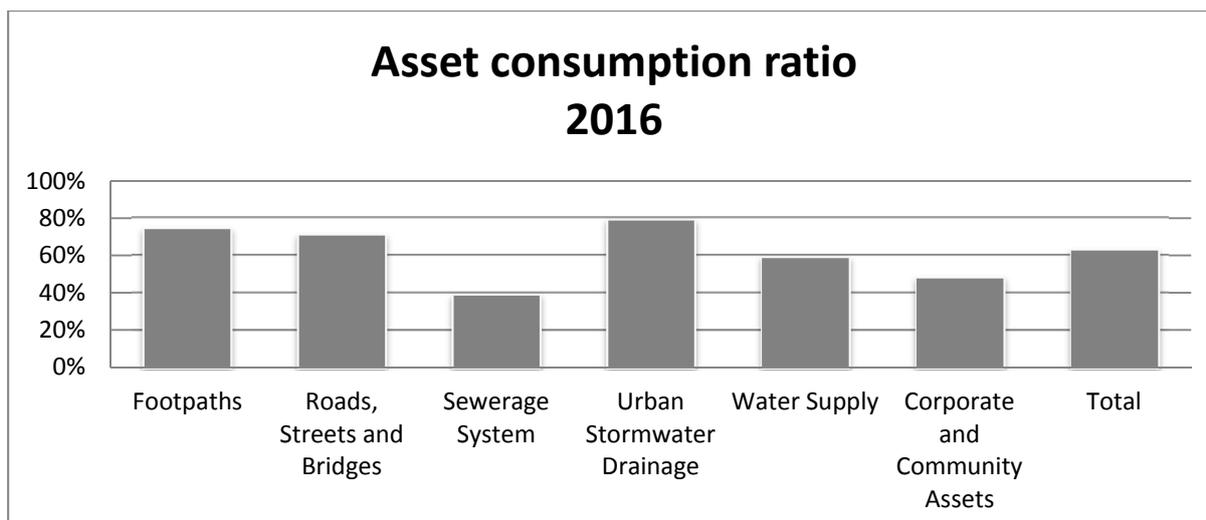
This measurement is done by dividing the written down value of the asset (the fair value of the asset less accumulated depreciation) by the fair value of the asset. This is called the Asset Consumption Ratio.

The Asset Consumption ratios of Council’s assets at 30 June 2016 are shown below. The Asset Consumption Ratio shows the average proportion of “as new condition” left in assets by comparing the “written down” value of the Council’s assets – replacement cost less the depreciation charged to the asset over time – against the replacement of the Council’s assets. An asset with a 100% ratio is in “brand new” condition while one at 0% has been fully depreciated over time.

As Figure 10 shows, asset classes where the Council has recently spent much effort renewing and/or expanding (such as stormwater drainage) perform better on this ratio than asset classes where much of the class have been in place for some time (such as the sewer system, parts of which were installed in the 1940s).

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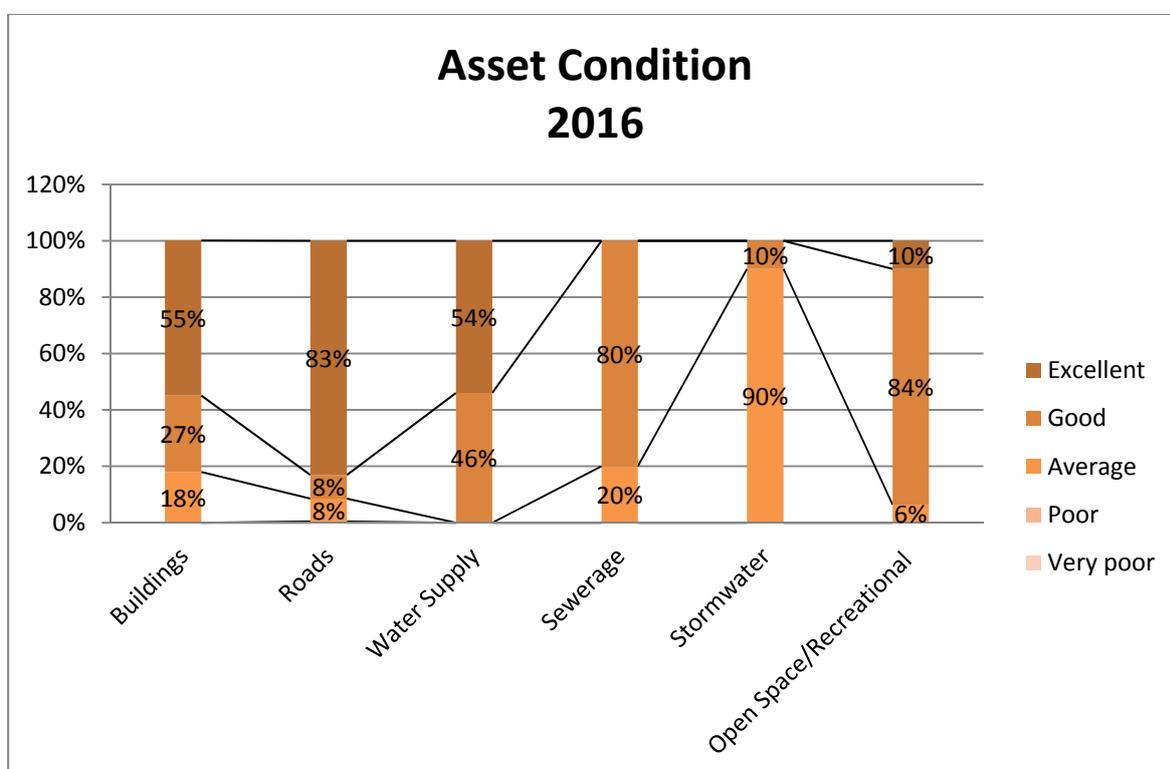
<sup>4</sup> <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/local-government-cost-index-lgci-council-cost-survey-2015/fact-sheet-reweighting-of-local-government-cost-index-19-september-2016.pdf>  
Retrieved 27 September 2016



**Figure 9 - Asset Consumption Ratio by asset type. Source: 2015/16 Annual Financial Statements Note 9**

Another method of measuring the condition of the Council's assets is to make a technical assessment of their condition using measures such as number of faults or breaks along with some professional judgement.

A technical assessment of the condition of the Council's infrastructure assets is shown in the chart below. These condition ratings have been derived from the ratings shown in Special Schedule 7 of the 2015/16 Financial Statements. Special Schedule 7 is based on a self-assessment of the condition of the Council's asset base by Council's Technical Services team.



**Figure 10 - Asset condition by type**

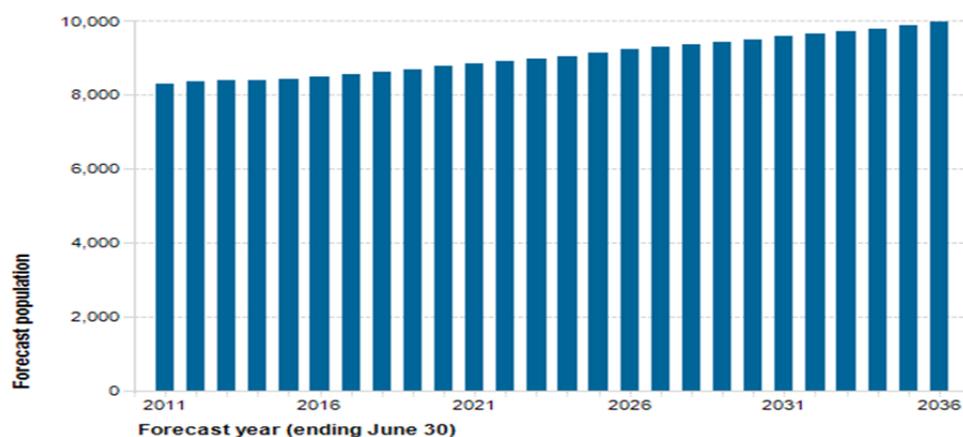
## Where are we going?

### Population growth

Berrigan Shire is expected to continue growing at a modest rate with the Shire population in 2026 expected to be around 9,224.<sup>5</sup> Population growth will be mainly in the south of the Shire, along the Murray River in Tocumwal and Barooga. Population growth in the northern towns of Berrigan and Finley will be minor.

#### Forecast population

Berrigan Shire



Population and household forecasts, 2011 to 2036, prepared by .id, August 2014.

**.id** the population experts

Figure 11 - Forecast population - .id

The population profile of the Shire will be an ageing one with 31.0% of the population aged over 65 in 2026. Consequently, consideration is being given by Council to how the delivery of its current activities and services will be influenced by the needs of an ageing population.

The Council developed a Liveability and Healthy Ageing Strategy in 2013 to assist the Council in managing this transition to an older community. Items from this strategy have been incorporated into the Council's suite of integrated plans and hence into this strategy.

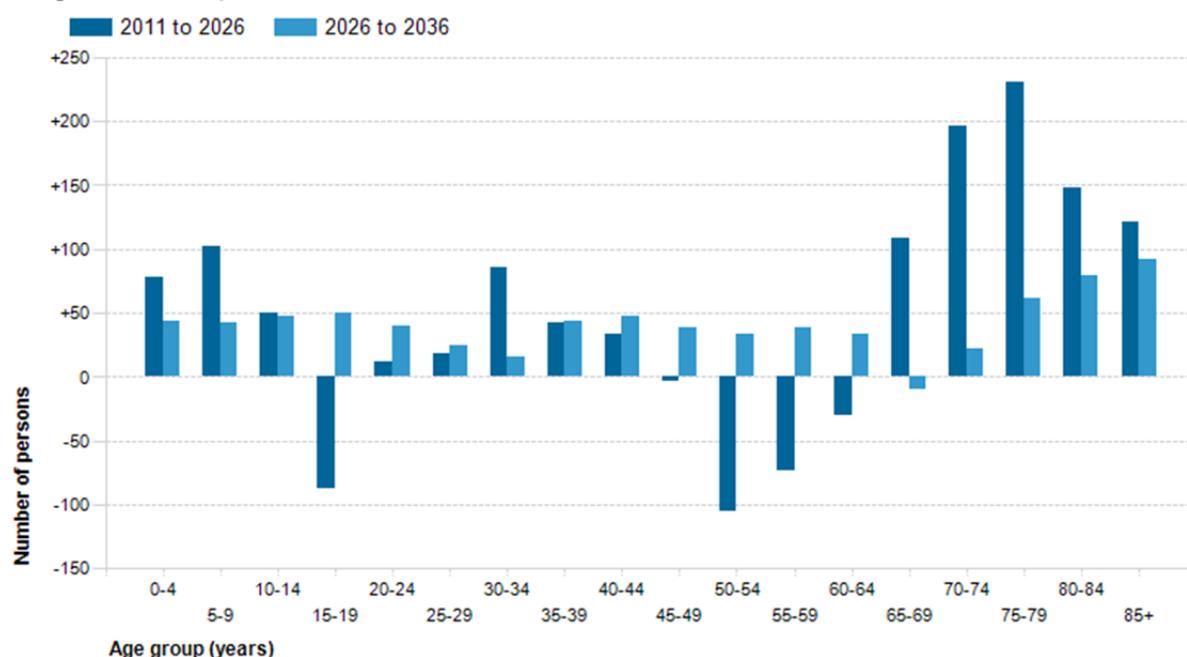
Liveability and Healthy Ageing Framework ... contributes to Berrigan Shire 2023 outcomes	
Themes & Outcomes	
<b>Moving:</b> Safe paths, parks, and travel, in and between our towns	<b>Sustainable natural and built landscapes</b>
<b>Living:</b> A place where all ages have options for healthy living	<b>Good Government</b>
<b>Ageing:</b> Older residents and their carers get the services they need	<b>Supported and engaged communities</b>
<b>Growing:</b> A vibrant business community that makes Berrigan Shire a great place to live, work, play and grow old	<b>Diverse and resilient business</b>

Figure 12 - Liveability and Healthy Ageing Strategy themes and outcomes. Source: Berrigan Shire Liveability and Healthy Ageing Strategy 2013

<sup>5</sup> <http://forecast.id.com.au/berrigan/population-households-dwellings> Retrieved 27 September 2016

## Forecast change in age structure - 5 year age groups

Berrigan Shire - Total persons



Population and household forecasts, 2011 to 2036, prepared by .id the population experts, August 2014.



Figure 13 - Forecast age structure - .id

A Land Demand Plan developed in 2006 identified significant spare infrastructure capacity in the two towns that will see considerable population growth between now and 2026 – Tocumwal and Barooga. As a result, there is not expected to be great demand for new “greenfield” infrastructure. Rather, the focus is expected to be on maintaining existing infrastructure, identification of surplus community infrastructure, and improvement on the margins. Similarly, there is not expected to be huge demand pressure on most Council-funded services.

On the other hand, there is also unlikely to be a significant increase in the Council’s rating and revenue base. The Council has the option to raise additional rates via a special rate variation but should be cognisant of the ability of the community to meet a larger rating burden.

### Community Strategic Plan

Berrigan Shire Council has facilitated the development of a Community Strategic Plan – *Berrigan Shire 2023*. The plan adopts the following vision for the shire.

***In 2023 we will be recognised as a Shire that builds on and promotes our natural assets and advantages to create employment and economic activity to attract residents, families and tourists.***

The aim of this Financial Strategy is to ensure the Council has the financial resources it needs to progress the implementation of Berrigan Shire 2023 objectives and associated Council activities and services.

## Council Activities / Services and Berrigan Shire 2023

Table 3 - CSP outcomes and objectives

CSP Strategic Outcome	CSP Strategic Objective	Council Activities and Services
<b>1.Sustainable Natural and Built Landscapes</b>	<p>1.1 Support sustainable use of our natural resources and built landscapes</p> <p>1.2 Retain the diversity and preserve the health of our natural landscapes and wildlife</p> <p>1.3 Connect and protect our communities</p>	<p>Water, sewerage and drainage</p> <p>Local roads and paths</p> <p>Land use planning and development</p>
<b>2. Good Government</b>	<p>2.1 Berrigan Shire 2022 objectives and strategies inform Council planning and community led projects</p> <p>2.2 Ensure effective governance by Council of Council operations and reporting</p> <p>2.3 Strengthen strategic relationships and partnerships with community, business and government</p>	<p>Council governance, enterprise risk management and business operations</p> <p>Community Planning</p>
<b>3. Supported and Engaged Communities</b>	<p>3.1 Create safe, friendly and accessible communities</p> <p>3.2 Support community engagement through life-long learning, culture and recreation</p>	<p>Libraries and community services</p> <p>Parks and reserves</p> <p>Environmental health</p> <p>Animal Control</p>
<b>4. Diverse and Resilient Business</b>	<p>4.1 Invest in local job creation, retention and innovation</p> <p>4.2 Strong and diverse local economy</p> <p>4.3 Diversify and promote local tourism</p> <p>4.4 Connect local, regional and national road, rail and aviation infrastructure</p>	<p>Business and economic development</p>

These activities and services all require the Council:

- To be financially sustainable
- To cost effectively maintain existing infrastructure service levels and increase them when opportunities arise
- To retain sufficient financial flexibility to undertake new projects and/or activities as desired.

*Berrigan Shire 2023* does not indicate any major change in direction or significant new activity for the Council.

## Asset planning

The development of this Financial Strategy is also informed by the Council's *Asset Management Strategy*. The *Asset Management Strategy* was first adopted by the Council in January 2012 is reviewed annually.

The *Asset Management Strategy* has the following aim:

***To ensure adequate provision is made for the long-term management and replacement of major technical and physical assets, (including land and property).***

In line with this aim, the objectives of the Council's *Asset Management Strategy* include:

- *Ensuring that Council's services and infrastructure are provided in a sustainable manner, with the appropriate levels of service to residents, visitors and the environment.*
- *Establishing processes that integrate asset management and community strategic planning with Council corporate and long-term financial planning.*
- *Creating an environment where all Council employees take an integral part in overall management of Council assets by creating and sustaining asset management awareness throughout the Council.*
- *Meeting legislative requirements for asset management.*
- *Ensuring resources and operational capabilities are identified and responsibility for asset management is allocated.*
- *Demonstrating transparent and responsible asset management processes that align with demonstrated best practice.*

The *Asset Management Strategy* review in April 2016 was based on the outlook that:

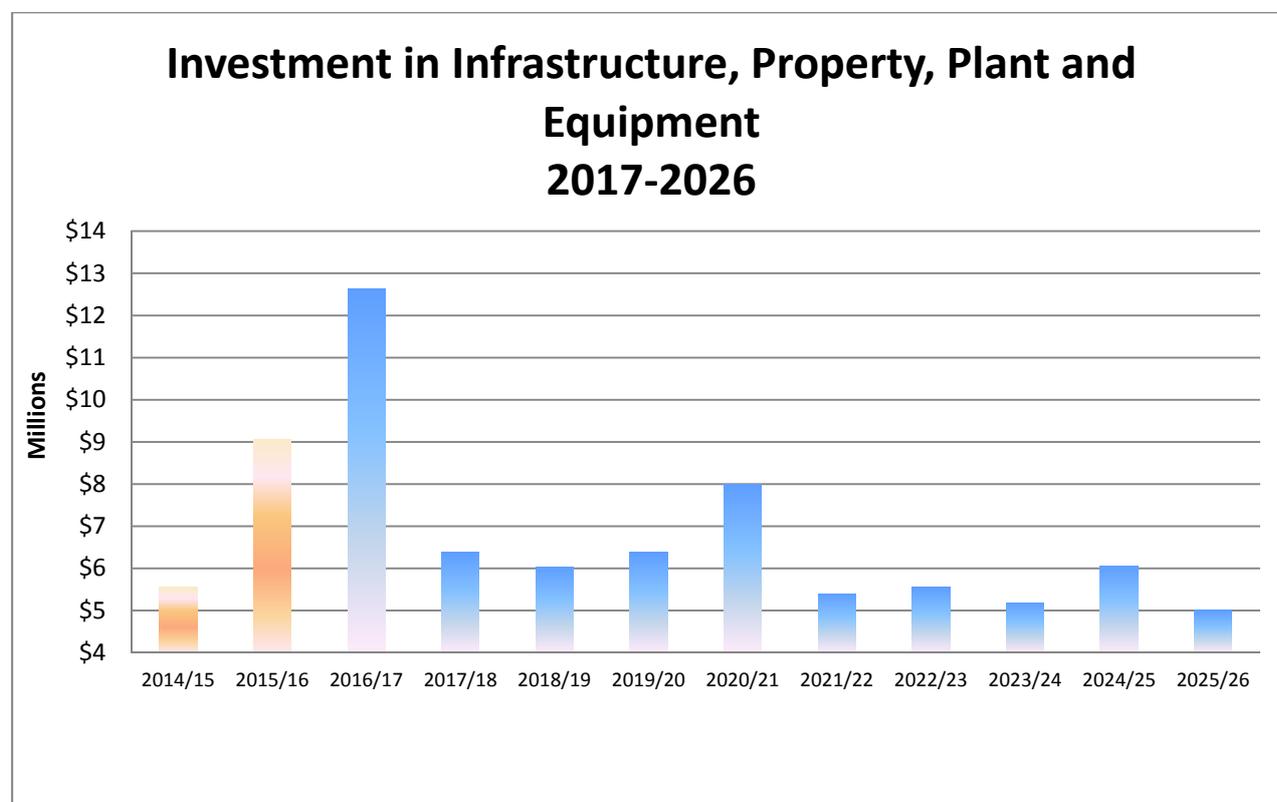
1. **Council is able to maintain current service levels for the next ten years at current funding levels.**
2. **Council is able to fund current infrastructure life cycle cost at current levels of service and available revenue.**

This outlook is supported by, and incorporated into, the Council's various *Asset Management Plans* and then incorporated into this strategy and the Council's Long Term Financial Plan.

The Council has the following *Asset Management Plans*

1. Footpaths
2. Roads, Streets and Bridges
3. Sewerage System
4. Urban Stormwater Drainage
5. Water Supply
6. Corporate and Community Services

The Council's proposed investment in Infrastructure, Property Plant and Equipment for the period 2014/15 to 2025/26 – based on its Asset Management Plans – is shown in Figure 9 below. Note that a significant change in the Asset Management Plans will require a review of this strategy.



- **Figure 14 - Investment in IPPE 2017-26. Source: Berrigan Shire Council Long Term Financial Plan Cash Flow Statement**

## Assumptions and scenarios

When preparing its Long Term Financial Plan, the Council is obliged to make a series of assumptions about future events that will have an impact on the Council's financial position. These assumptions are based on the analysis of the Council's position shown above.

These assumptions are as follows

1. Inflation, as measured by the Local Government Cost Index will average 2.5% per annum
2. Wages growth will average 2.5% per annum, after the expiration of the current mandated award wage rate increases.
3. Staffing levels will remain static
4. The rate peg will increase by the rate of inflation as measured by the Local Government Cost Index
5. The number of rateable properties will remain static
6. User charges and other fees and charges will increase by the rate of inflation, as will operating grants and contributions.
7. Financial Assistance Grant will increase by the rate of inflation as measured by the Local Government Cost Index

8. Roads to Recovery (or an analogous program) will continue until 2026
9. Investment returns will average around 3% per annum.

The Council considers that its current environment is reasonably stable at present and these assumptions are unlikely to change materially over the next 10 years. However, the Council may include other scenarios in its Long Term Financial Plan where these assumptions are varied.

These scenarios may model changes in the Council's overall strategic direction – i.e. analysing the impact of the Council taking on or relinquishing a key function or facility.

Alternatively the scenario modelling may be as a result of an underlying change in its operating environment – i.e. to consider the impact of greater than expected wages growth or inflation.

## What is our financial direction?

The medium to long term financial outcomes to be achieved by this strategy are:

### 1. Financial sustainability

Berrigan Shire will be financially sustainable if its infrastructure capital and its financial capital are able to be maintained over the long term.

A financially sustainable Berrigan Shire will be able to manage likely developments and unexpected financial shocks in future periods without having at some time to introduce economically significant or socially destabilising income or expenditure adjustments.

Financial sustainability is determined by comparing the Council's long-term financial capacity with its long-term financial requirements.

- **Financial capacity** is the sum total of the financial resources (operating and capital) that a Council can mobilise through its (present and prospective) revenue-raising and financing policies.
- **Financial requirements** is the sum total of the spending (operating and capital) that is necessary to meet the Council's present obligations and expected future functions, pressures and shocks.

Maintaining Berrigan Shire's financial capital will require the Council to return to a position where it is making operating surpluses before capital grants and contributions. Achieving an operating breakeven position or better on average over time is likely to generate sufficient funds to enable renewal or replacement of the Council's existing assets

### 2. Sufficient financial capacity and freedom to undertake new projects and activities if desired.

As community expectations, wants and needs change Berrigan Shire Council needs to retain sufficient financial capacity and flexibility to ensure that it can cater for those changes.

As listed above, the Council's financial capacity is the sum total of the financial resources that a Council can mobilise through its revenue-raising and financing policies. As well as obvious items such as rates and charges, grants and fees, this includes:

- Cash reserves
- Borrowing capacity
- Discretionary funds (i.e. funds not committed to other specific projects and activities)

In simple terms retaining financial capacity is about ensuring the Council has the ability to access funds as it requires. This means limiting its commitments to new activities with on-going costs, minimising the costs of servicing debt and putting aside funds for future projects

### **3. Cost effective maintenance – and improvement where possible – of service level standards for infrastructure assets.**

One of local government's roles is to provide facilities and services to communities that cannot be or are not provided by the private or for-profit sector. In the case of local government, these services are largely physical infrastructure-based services and facilities such as:

- transportation (roads, footpaths etc.);
- public health (water, sewer, waste management, cemeteries, drainage etc.);
- recreational (pools, parks, sporting fields);
- cultural (buildings etc.).

Maintaining the level of service for infrastructure-based services such as the above requires the Council to maintain its physical productive capacity – that is “Is the Council's infrastructure – in an overall sense – in a position to deliver the same level of service at the end of the period as it was at the beginning of the period?”

When building new community assets, the Council should consider the decommissioning of community assets that may be superseded by the new asset. It is not in the interest of the Council or the community to needlessly duplicate community assets, multiplying maintenance and renewal costs.

The Council should also consider (and regularly review) if the services and facilities it offers the public actually address the community's needs and/or desires, and if they do – do they do so in an efficient and effective way. Communities change and their needs change too – Council should be prepared to shift their mix of facilities and services to meet these changes.

As a general rule, the level of service supplied by infrastructure assets is a function of their age – provided that the assets are maintained in a reasonable fashion. Therefore, a systematic replacement and renewal program for these assets is the key to ensuring service level standards are maintained.

## **How are we going to get there?**

### **Actions**

To achieve its financial objectives, Berrigan Shire Council has identified a range of specific actions and activities aligned with Berrigan Shire 2023. These will be used in the preparation of the Council's Long Term Financial Plan

Table 4 - Actions

<b>Berrigan Shire 2023 and Financial Strategy Actions</b>
<b>2. Good Government</b>
<i>2.2 Ensure effective governance by Council of Council operations and reporting</i>
2.2.2 Council operations support ethical, transparent and accountable corporate governance

<b>Financial Strategy Objectives</b>	<b>Actions</b>
1. Financial sustainability	<p><b>1.1 Prepare and review annually a Long Term Financial Plan with the aim of achieving the financial objectives identified in this strategy.</b></p> <p>Using a ten year financial planning horizon allows the Council to take into account the longer term consequences of current decision making. It also allows for consideration of short term fluctuations etc.</p> <p>A minimum 10 year Long Term Financial Plan is a component of the Council's resourcing strategy, a core requirement of the new Integrated Planning and Reporting Model</p>
	<p><b>1.2 Prepare Capital Expenditure Reviews, including an assessment of lifecycle costs, for all new and/or upgraded infrastructure assets – with the exception of upgrades of roads, water mains and sewer mains.</b></p> <p>When making decisions regarding new and upgraded infrastructure it is important that the costs of operating, maintaining and replacing that infrastructure is taken into account. A sustainable Council only takes on obligations that it can afford to meet</p>
	<p><b>1.3 Resist the pressure to fund services that are the responsibility of other levels of government.</b></p> <p>While cost-shifting is often inevitable, the Council will resist this where possible and certainly will not look to take on obligations properly belonging to other levels of government without a corresponding funding stream.</p> <p>The Council's response to inadequate service delivery from other levels of government will not be to take on these obligations itself but to act as an advocate for the community to the NSW and Federal governments.</p>
	<p><b>1.4 Retain control of urban water supply and sewer services.</b></p> <p>The Council will continue to resist plans to remove control of its urban water supply and sewer services. Berrigan Shire Council runs</p>

Financial Strategy Objectives	Actions
	<p>these services in an efficient and effective manner.</p> <p>These services share the cost of running the Council's governance, corporate and financial services. Losing these services will significantly financially disadvantage Berrigan Shire Council with little if any benefit to the local community.</p> <p><b>1.5 Recognise that funding for renewal and upgrading of sport, recreation and cultural infrastructure requires a combination of Council funding and community support and preferably some contribution from other levels of government.</b></p> <p>Berrigan Shire Council does not have the capacity to fund the replacement and upgrade of this recreational, sporting and cultural infrastructure (Recreation Reserves, Community Halls, etc.) without support from the community and ideally other levels of government.</p> <p>Without funding assistance from the community and/or other levels of government, the Council cannot responsibly consider upgrade and replacement of these assets</p> <p><b>1.6 Seek methods of achieving a return (or at least minimise ratepayer subsidy) on business activities such as the Finley Saleyards, Tocumwal Caravan Park and Tocumwal Aerodrome. Subsidies to programs such as the private operation of the Tocumwal Visitor Information Centre should also be reviewed regularly.</b></p> <p>Berrigan Shire Council has made significant progress over the past ten years in limiting its exposure to loss-making commercial enterprises. The Finley Saleyards, the Tocumwal Caravan Park and the Berrigan Caravan park have all been leased to private operators to run on a commercial basis and this has markedly improved the Council's financial position.</p> <p>The Council has also identified strategies to ease the financial burden of the Tocumwal Aerodrome – including the establishment of a sinking fund for runway maintenance and the development of the Tocumwal Residential Airpark.</p> <p>The Council has also placed the Tocumwal Visitor Information Centre on a more sustainable financial footing through a partnership with a private operator.</p> <p><b>1.7 Encourage and support the existing model of community provision and operation of sport, recreation and cultural infrastructure.</b></p> <p>Berrigan Shire Council relies on a volunteer-driven model to provide services such as sporting fields, public swimming pools and</p>

Financial Strategy Objectives	Actions
	<p>community halls.</p> <p>Without the in-kind support of these volunteers, the community would be required to choose between service level reductions or rate increases.</p> <p>Cultural change and increasing regulatory burdens have seen this volunteer model come under some stress in recent years. The Council will conduct a range of activities to support, retain and attract volunteers to assist in supplying these services.</p> <p><b>1.8 Actively lobby the State and Federal Governments to retain existing grant funding levels for road maintenance and upgrades.</b></p> <p>Without the retention of existing levels of RMA and R2R funding, the Council cannot continue to maintain its existing road service levels.</p>
<p>2. Cost effective maintenance of infrastructure service levels</p>	<p><b>2.1 Prepare and review its Asset Management Strategy and its Asset Management Plans for the Council’s major infrastructure assets annually as part of annual budget preparation.</b></p> <p>The Council reviews its Asset Management Strategy annually and has prepared Asset Management Plans for all its major classes of assets.</p> <p>The Council’s major expenditure items relate to replacement and upgrading of its infrastructure assets. It is important that the Council continues to review its asset plans and strategies as circumstances change.</p> <p><b>2.2 Prioritise the renewal of existing assets over the development and delivery of new assets and services.</b></p> <p>A sustainable Council ensures it can fund its existing range of services before taking on new obligations. The challenge is to be able to manage community expectations on sustainable service levels.</p> <p>In addition, the Council should consider if the construction of a new asset, especially a new community facility, effectively supersedes an existing facility that could be considered for decommissioning.</p> <p><b>2.3 Regularly review the suitability and/or usage of community services and facilities and consider alternate delivery methods.</b></p> <p>As the Berrigan Shire community changes so do its needs and desires. It is important the Council regularly review the suitability</p>

Financial Strategy Objectives	Actions
	<p>and usage of these services and facilities to ensure its limited resources are best used to meet community needs.</p> <p><b>2.4 Implement a Borrowing Policy that allows the Council to borrow only for the development of infrastructure where</b></p> <ul style="list-style-type: none"> <li>a) There is an urgent need for the asset in the short term, or</li> <li>b) It is most cost-effective to construct the asset in the short term (as opposed to waiting until sufficient on-hand funds are available), and</li> <li>c) The Council has access to a funding stream to meet its debt obligations without compromising its other activities.</li> </ul> <p>This has been traditionally the Council’s preference and adoption of a policy will formalise this process.</p> <p>In effect, this will mean that borrowing will be largely be restricted to functions such as urban water supply, sewer and waste management where the Council retains some control over its future revenues. It may also be an appropriate funding tool for land development in limited circumstances.</p> <p>The policy will still allow for the possibility of borrowing for other services where borrowing is identified as the cheaper whole-of-life funding option or immediate construction allows the Council to access an opportunity that would otherwise be missed. Interest subsidies may influence any decision to borrow.</p> <p>The Council now has the opportunity to cheaper finance via NSW Treasury Corporation which may make borrowing a more attractive option in the future.</p> <p>Finally, if community support can be demonstrated, the policy borrowing for the replacement of recreational, sporting and community assets where it can be tied to additional funding from a Special Rates Variation.</p>
3. Financial capacity and freedom	<p><b>3.1 Formalise the Council’s existing preference to put money aside for future capital works, rather than borrow.</b></p> <p>Saving for new infrastructure rather than borrowing has been the Council’s traditional preference. It minimises the burden placed on future generations and allows the Council to retain some financial capacity and flexibility.</p> <p>For a Council with moderate population and revenue growth such as Berrigan Shire, there is unlikely to be immediate pressure to construct new or upgraded assets in a time frame that does not allow for the required funds to be put aside.</p> <p>Interest subsidy schemes such as the Local Infrastructure Renewal Scheme (LIRS) and access to finance via NSW Treasury Corporation</p>

Financial Strategy Objectives	Actions
	<p>will make borrowing for renewal of community infrastructure a viable option.</p> <p><b>3.2 Maintain the existing Investment Policy settings prioritising preservation of capital over investment return.</b></p> <p>Chasing revenue growth from investments necessarily adds to the risk levels borne by the Council. Berrigan Shire Council has historically sought to avoid investment risk through the use of relatively safe investment products such as Term Deposits and through a diverse investment portfolio.</p> <p>Again, access to NSW Treasury Corporation products may allow the Council to access higher-yield investments for long-term cash reserves</p> <p><b>3.3 Retire existing debt in line with existing loan repayment schedules. Once paid, quarantine the repayment stream freed up to fund future capital renewal projects or specifically identified programs.</b></p> <p>Retirement of existing debt frees up additional funds to spend on other services. However, it is important that these newly freed-up funds continue to be allocated to the replacement or upgrade of infrastructure and not lost in the pool of recurrent funding. This could include funding the repayment of new loans to fund infrastructure renewal in line with Objective 2.3.</p> <p>Identifying funding streams for future replacement of assets is good financial discipline and assists the Council's sustainability and financial flexibility.</p> <p><b>3.4 Continue to actively recover outstanding rates debt as identified in the Council's Revenue Policy.</b></p> <p>The Council has an active and successful debt recovery process and this will continue. This assists the Council to maintain an adequate level of working capital.</p> <p><b>3.5 Set utility charges for water supply, sewer and waste management services at a level that delivers a return on those assets sufficient to ensure long term sustainability.</b></p> <p>The Council is unlikely to be eligible for funding assistance for replacement or upgrade of its assets for these services and will need to generate sufficient funds from its own sources to do so. Making a return on these assets will generate sufficient funds to ensure the sustainability of these services.</p>

Financial Strategy Objectives	Actions
	<p>A necessary corollary of this action is that revenues generated from these assets should be reasonably predictable. This means targets such as raising at least 50% of its water revenue from variable user charges may not always be appropriate.</p> <p><b>3.6 Consider seeking a Special Rates Variation where there is a clearly identified demand for new or significantly improved service levels.</b></p> <p>While Berrigan Shire Council’s preferred approach will be to live within its means where possible, it is of course required to respond to community demand.</p> <p>Where the community has clearly identified that is willing to pay for increased levels of service, the Council will consider applying for a Special Rate Variation to fund this. This will only occur after considering and exhausting all other actions as identified above.</p>

## How will we know if we are on course?

Berrigan Shire Council will measure its progress against its three desired outcomes by tracking performance against a set of key performance measures. The Australian Local Government Planning Ministers Council’s National Financial Sustainability Frameworks defined performance measures as “signals used to convey the directions being taken by the Council and to assess whether or not desired outcomes are being achieved.

Effective performance indicators:

- Measure those factors which define financial sustainability
- Are relatively few in number
- Are based on information that is readily available and reliable.

Performance measures cannot and should not try and measure everything but rather should be pitched at a reasonably high level. They should be used as a guide as to where to look for reasons behind any differences and trends and to identify specific areas for further analysis.

The Council has chosen to base its performance measures on data that can be found in its Annual Financial Statements. While this is necessarily a “broad-bush” approach, it has the advantages of not requiring the additional work and expense involved in data-gathering and analysis. Data from the Annual Financial Statements is transparent, audited and reasonably consistent from Council to Council.

The measures below have been selected as they are common across local government in NSW.

- Operating Performance Ratio
- Unrestricted Current Ratio
- Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage
- Building, Infrastructure & Other Structures Renewals Ratio

- Infrastructure Backlog Ratio
- Capital Expenditure Ratio
- Debt Service Cover Ratio
- Cash Expense Cover Ratio

The Council has a role in determining which of these measures (or other measures not listed here) will be adopted to track progress against the objectives of this strategy.

**Table 5 - Performance measures for objectives**

<b>Financial Objectives</b>	<b>Strategy</b>	<b>Possible Indicators</b>
1. Financial sustainability		Operating Performance Ratio  Unrestricted Current Ratio  Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage
2. Cost effective maintenance of infrastructure levels	effective service	Building, Infrastructure & Other Structures Renewals Ratio  Infrastructure Backlog Ratio  Capital Expenditure Ratio
3. Financial capacity and freedom		Debt Service Cover Ratio  Cash Expense Cover Ratio

- See Appendix for description of indicator and indicative targets

## Appendix

Table 6 - Specific performance measures

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
1. Operating Performance Ratio	The percentage by which income (excluding capital grants) varies from expenses	The operating performance ratio is the operating surplus (or deficit) before capital grants expressed as a percentage of total expenses	Operating surplus/deficit divided by operating expenditure.  <u>2015/16 actual</u> Operating surplus = \$3.3 M Operating expenses = \$18.0 M  <b>Operating Surplus Ratio =</b> [3.3/ 18.0) = 18.3%	An operating performance ratio greater than 0% across any five year period
	<b>What does it mean?</b>	A positive value indicates the Council is meeting its operating expenses, including depreciation.  A negative value indicates the Council needs to reduce its expenses or raise additional revenue to be sustainable in the long term.		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
2. Unrestricted Current Ratio	The ratio between current assets and current liabilities – not including those assets and liabilities held for a specific purpose	This measure is the Council's current assets (i.e. liquid assets) expressed as a ratio of its current liabilities (i.e. short term debts) –	Current assets (less all external restrictions.) divided by current liabilities  <u>2015/16 actual</u> Current Assets = \$10.7 M Current liabilities = \$1.5 M  <b>Operating Surplus</b> = 7.0x	An Unrestricted Current Ratio of at least 2x
	<b>What does it mean?</b>	<p>If the Council is not maintaining its current assets at the at least the level of its current assets it may not be able to pay its debts and other obligations as and when they fall due.</p> <p>It means that the Council's obligations over the next 12 months exceed the funds available to pay them as they fall due. If the Council's current liabilities exceed its current assets and the Long Term Financial Plan does not provide a proposal to turn this around, it is inevitable that the Council will face a cash flow crisis in the future.</p> <p>The position would come to a head when a major obligation was required to be paid and the Council would be required to borrow to meet this obligation – increasing its debt and reducing its financial flexibility.</p>		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
3. Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	What rates, annual charges are owing to the Council as a proportion of its total rates and annual charges revenue.	Indicates the amount of rates and changes outstanding as a percentage of total rates and charges.	<p>Rates, annual and extra charges outstanding divided by rates, annual and extra charges, expressed as a percentage</p> <p><u>2015/16 actual</u>            Rates, annual and extra charges outstanding = \$0.35 M            Rates, annual and extra charges = \$9.7 M</p> <p><b>Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage = 3.5 %</b></p>	Outstanding rates, annual and extra charges percentage to remain under 8% as at 30 June each year
	<b>What does it mean?</b>	<p>This indicator identifies how well the Council collects its outstanding rates, annual and extra charges</p> <p>A result of greater than 8% per year – if unchecked – would lead to Council facing potential cash flow problems in the future due to a lack of working capital.</p>		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
4. Building, Infrastructure & Other Structures Renewals Ratio	The amount spent on asset renewals expressed as a percentage of depreciation and impairment.	Indicates the extent to which Council is renewing its asset base	Asset renewals on buildings, infrastructure and other structures divided by depreciation, amortisation and impairment expressed as a percentage  <u>2015/16 actual</u> Asset renewals on buildings, infrastructure and other structures = \$6.24 M depreciation, amortisation and impairment = \$4.44M  <b>Building, Infrastructure &amp; Other Structures Renewals Ratio = 140.51%</b>	Building, Infrastructure & Other Structures Renewals Ratio to remain over 100% on average over life of the LTFP.  When setting this target, the Council should consider that asset replacement is often lumpy – with large changes in asset renewals depending on the needs of the time  The Council should consider its performance on this measure over no shorter than a 10 year period and preferably longer.
	<b>What does it mean?</b>	It is possible for the Council to save money by not renewing its assets as they deteriorate over time. This indicator attempts to measure if the Council is renewing its assets at an adequate rate.  A measure below 100% indicates that the Council's asset base is depreciating faster than the Council is able to renew it.  If this continues over time, the Council's assets will eventually become unsuited for purpose, adding to its infrastructure backlog and creating severe financial pressure for future generations.		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
5. Infrastructure Backlog Ratio	The cost to bring the Council's assets to a satisfactory condition as a proportion of its overall assets.	An overall indicator the standard of the Council's assets. Provides a measure of the amount of work that is required to bring its assets to an acceptable standard	<p>Estimated cost to bring Assets to a Satisfactory Condition divided by the total Value of Infrastructure, Building, Other Structures and depreciable Land Improvement assets, expressed as a percentage</p> <p><u>2015/16 actual</u>            Estimated cost to bring Assets to a Satisfactory Condition = \$NIL            Total Value of Infrastructure, Building, Other Structures and depreciable Land Improvement assets = \$197 M</p> <p><b>Interest Cover Ratio = 0%</b></p>	Infrastructure Backlog Ratio to remain at less than 2% at all times
	<b>What does it mean?</b>	<p>This indicator is a general guide to the condition of the Council assets.</p> <p>This indicator tends to reflect the Council's performance against the Building, Infrastructure &amp; Other Structures Renewals Ratio over time, If that ratio is consistently under 100%, the Infrastructure Backlog Ratio will increase. Conversely, reducing the Infrastructure Backlog Ratio tends to require maintaining the Building, Infrastructure &amp; Other Structures Renewals Ratio at greater than 100% over time</p> <p>If this ratio is over 2% and growing, it indicates that the Council needs to either put more effort into renewing its assets (perhaps requiring rate increases to fund) or reconsider what standard of asset the community feels is acceptable</p>		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
6. Capital Expenditure Ratio	The ratio of expenditure on capital assets and annual depreciation.	Indicates whether the Council is replacing or renewing non-financial assets at the same rate that its overall stock of assets is wearing out for the period	Capital expenditure divided by annual depreciation expense.  <u>2015/16 actual</u> Capital expenditure = \$8.99M Depreciation expense = \$5.76 M  <b>Capital Expenditure Ratio = 1.56x</b>	Target to be set having regard to the relative age and replacement/renewal profile of the Council's asset portfolio. On average should be at least 100% provided Council wishes to maintain level of service
	<b>What does it mean?</b>	If capital expenditure on renewing or replacing existing assets is at least equal to depreciation on average over time then the Council is ensuring the value of its existing stock of its physical assets is maintained  This ratio will vary, often by significant amounts, as the Council's asset replacement program is unrolled over time.		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
7. Debt Service Cover Ratio	The amount of operating cash available as a proportion of its debt repayment obligations	Measures the availability of operating cash to service debt including interest, principal and lease payments	<p>Operating result before capital excluding interest and depreciation, impairment divided by principal repayments and borrowing costs</p> <p><u>2015/16 actual</u></p> <p>Operating result before capital excluding interest and depreciation, impairment = \$8.94M principal repayments and borrowing costs = \$0.349M</p> <p><b>Debt Service Cover Ratio = 25.62 x</b></p>	Debt service ratio is greater than 2.00 x
	<b>What does it mean?</b>	<p>This ratio seeks to highlight if the Council is generating sufficient cash to meet its debt obligations</p> <p>A ratio of less than 2.00 x, unless addressed, may see the Council struggle to raise sufficient cash to pay its debt obligations without selling realisable assets.</p> <p>The Council currently has a low level of indebtedness and its Long Term Financial Strategy does not seek to change this.</p>		

Indicator	Description	Comment	Calculation (\$M)	Indicative Target
8. Cash Expense Cover Ratio	How many months work of operating expenses can the Council meet with its existing holdings of cash	Measures the number of months a Council can continue paying for its immediate expenses without additional cash inflow	<p>Cash and Cash Equivalents and Term Deposits divided by payments from cash flow of operating and financing activities x 12</p> <p><u>2015/16 actual</u></p> <p>Cash and Cash Equivalents and Term Deposits = \$23.8 M</p> <p>Payments from cash flow of operating and financing activities = \$1.19 M</p> <p>Cash Expense Cover Ratio = <b>20 months</b></p>	Cash Expense Cover Ratio is to be no less than three months
	<b>What does it mean?</b>	<p>This ratio seeks to highlight the Council's ability to meet a short term revenue and/or cash flow shock and continue to operate.</p> <p>A ratio of less than three months could see the Council struggling to meet expenses on a periodic basis without having to borrow. Rates instalments and Financial Assistance Grants tend to paid in three-monthly cycles.</p>		