

## Financial Performance Policy

### 1 Purpose

To outline the Local Land Services (LLS) policy for the financial performance of the LLS entity and for Local LLS Regions.

### 2 Scope

This policy applies across LLS.

### 3 Policy Detail

#### 3.1 Overview

The Board of Chairs (BoC) has agreed on an approach for LLS to align the financial performance requirements of LLS as an entity, with the requirements and objectives of individual Regions. The approach is based on the responsibility not only to ensure that the entity LLS has a sound business strategy, but also that both the entity and Regions plan for and produce solid and sustainable financial performance.

#### 3.2 Key considerations

From a financial performance perspective, it has been agreed that the entity LLS will be managed so that each Local Region contributes to the strength of LLS as a whole and that Regions also benefit from being part of a bigger entity.

There will be times when a Local Region or Regions will need to draw on the strength of LLS's financial position as they reposition to a sustainable basis. Conversely, Local Regions which continuously operate at a profit need to feel confident that they and their ratepayers will in the future have reasonable access over time to the funds they have generated to provide additional services or capital acquisitions. Without the latter, the incentive and willingness for Local Regions to trade at a profit will diminish and the LLS entity as a whole will become weaker.

The Local Land Services Act 2013 outlines the role of local boards in respect to local governance and oversight, planning functions and the facilitation of local delivery programs and services. The Act also makes it clear that the BoC has responsibility to deliver local land services across the state in precedence over the delivery of local land services in any region.

The LLS Act supports a state wide perspective: references in ss. 3 and 4(2) refer to delivery of all services in accordance with any State priorities. S. 4 appears to prioritise between the 4 pillars of LLS business (biosecurity, natural resource management, emergency management and extension) and not the regions. S. 13 provides for the deployment of staff across cross regions. However, the legislation relating to rates: ss. 14, 27, 29, 30, 57 and the Part 2 of the Regulation links rates to the region. So while there is no clear prohibition in spending outside the region, the implication is rates should generally be regional.

The BoC has a responsibility to ensure that all Local Regions are in a position to deliver viable services and meet the service obligations as outlined in the Act. Also from day one it has been clear that some Local Regions would face a degree of financial difficulty in the first year(s) of operation.

The LLS entity commenced life on 1<sup>st</sup> January 2014 with net assets of \$177m and cash on hand of \$57m.<sup>1</sup> Most Local Regions contributed to LLS having these consolidated funds at commencement. Accordingly LLS in aggregate has some capacity to support Local Regions that need to transition to a sustainable base.

Bringing the above together, LLS is set up to conduct its affairs regionally, it is however only one entity with one main centralised bank account and a key issue is balancing any regional assistance and access to pooled funds, with maintaining regional autonomy and responsibility, while also providing Regions with the continuing incentive to develop and maintain sustainable profitable businesses. Furthermore, the parameters of this balancing need to be consistent with providing ratepayers with an assurance that the rates they pay will be transparently spent on the provision of services within the Region where the funds were raised.

### 3.3 Policy position

The BoC has a legislative requirement to oversight all Regional strategic plans and yearly budgets and will help to develop a culture of financial discipline and shared financial responsibility.

To assist the BoC meet of this requirement, LLS will provide Regions access to some level of subsidised funding over the short to mid-term and provide other Regions with a level of recognition of future access to the funds that they have accrued and will contribute to LLS. Ten guidelines have been put in place to deliver this, and provide commercially-focussed sustainable operations, as follows:

1. Acknowledgement that the LLS entity in aggregate commenced life with a cash reserve, (referred to as cash reserve fund in this document).
2. Recognition will be given to the Local Region of origin of LLS funds at commencement (and whether committed or available) and whether ongoing operations add to or reduce this balance. The first iteration of this reconciliation will be provided to the Board of Chairs in July 2014, with a six monthly reconciliation thereafter.
3. Local Regions are responsible and accountable for their individual Profit and Loss Statement (also known as a statement of financial performance or an income statement) and Asset and Liability Statement, which are subject to regular review by the BoC.
4. Regional Profit and Loss Statements, on a fully costed basis, will form part of a standard reporting package so that transparency is achieved and all Regions are aware of their relative performance.
5. Local Regions may from time to time need financial support from the aggregate LLS entity (eg for new initiatives or if running a temporary deficit for service provision reasons) and they will call on centrally held funds.
6. Local Regions that operate at a loss or are forecast to do so in a forthcoming period(s), must provide plans acceptable to the BoC to address the loss and place the Region on a sustainable and profitable footing.
7. Cumulative financial performance records by Local Regions will be retained so that all Local Regions share a common understanding as to the funds they have drawn from or contributed to the aggregate LLS entity.

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<sup>1</sup> The cash on hand figure is accurate, but a reconciliation of the commitments for that cash has not been completed. The former CMAs had commitments for a large amount of funds to be expended at June 30 2014, and it is not likely that a true cash surplus for LLS will be known until the audit of the 2013/14 accounts are completed.

8. Consideration of past draw down of funds, or contribution to accumulated funds, is a relevant factor in considering requests to the BoC for the allocation of funds from the opening cash reserve fund or for capital requirements.
9. In any final decision, the interests of the aggregate LLS entity will take precedence over an individual view.
10. The BoC will monitor long term deficits in a Local region and assist in the resolution of these matters.

#### 4 Related documents/links

The Senior Executive Team (General Managers, Executive Manager, CFO, Senior Managers) have developed a series of budget principles which have been applied to the budget for 2014 and 2014/15. The principles appear in Appendix A.

#### 5 Responsibility for implementation, monitoring and continual improvement

The following are responsible for implementation, monitoring and continual improvement of this policy. (Noting the broad application of this policy, a range of people across LLS have policy responsibility).

| Name                    | Responsibility                                     |
|-------------------------|--|
| Board of Chairs         | Policy oversight, monitoring and improvement.      |
| Senior Executive Team   | Policy implementation, monitoring and improvement. |
| Chief Financial Officer | Policy Manager                                     |

#### 6 Approval and revision

Approved by resolution of the Board of Chairs Meeting 8, 5 June 2014.

| Revision | Date    | Position        | Notes            |
|----------|---------|-----------------|------------------|
| 1.0      | 5/6/14  | Board of Chairs | Draft approved   |
| 1.1      | 11/6/14 | Board of Chairs | Minor amendments |

## Attachment A – LLS Budget Principles

The Senior Executive Team (SET), comprising General Managers, Executive Manager, CFO, Senior Managers, have developed a series of budget principles which have been applied to the budget for 2014 and 2014/15. The principles are as follows:

1. The principles are interim. They focus on the long term, but address current needs and will need a review for the 2015/16 budget.
2. The corporate performance of the aggregate LLS entity is of primary importance.
3. For a range of reasons (including the LLS brand, expectation from customers and stakeholders, etc) rates and levies should remain in the local region in which they are collected, except in circumstances as agreed by the Board of Chairs. It is accepted that flexibility is required in year 1 and 2.
4. A policy and process to “borrow and pay back” from the LLS aggregate entity has been put in place by the Board of Chairs to manage shortfalls and allow local regions to accrue funds for planned increases in services.
5. Contracted outcomes such as competitive grant funding will remain in the local region. This is on the understanding that LLS will over time undertake a more strategic approach to applying for competitive grants to ensure funds are allocated to the highest priority issues (eg it was agreed that the North West LLS local region was the highest priority for Green Army funds for TSR activity).
6. Funds from any asset sales will remain in the region in which they are generated.
7. Subject to the other principles herein, where new revenue is needed to deliver local strategic plan objectives local regions will source and retain these funds from sources other than the aggregate LLS entity.
8. The payment of shared services for corporate services, etc. will be prorated based on regional budgeted FTE Staff, then “allocated” to each region. Longer term, benchmarks and services provided to each LLS region will allow better apportionment of corporate services costs. This will help to ensure that the value proposition for shared services is clear, transparent and can be communicated to stakeholders.
9. Executive Support Unit (ESU) costs will be allocated as a proportion of regional revenue. It is accepted that ESU resource needs may be higher in the initial few years of LLS as setup tasks are delivered.
10. The Natural Resources Commission allocation process for Catchment Action NSW is accepted as the “least worst” option for now. (In effect there is no other option with the required degree of robustness). However, the application of the outcomes of the allocation process would be too disruptive for staff and service delivery in 14/15, so numbers will be smoothed to +/- 5% from previous past practice. This will require some regional negotiation noting the current figures are not as robust as they need to be.
11. LLS needs a robust funding allocation process for Catchment Action NSW funding (and as an option for others) for 15/16 onwards. This would need to look at a range of options such as social return on investment, frameworks from the Investment Framework For Environmental Resources (INFFER), the current Natural Resources Commission approach, etc. The SET will commission work for this (internal/external) for consideration of the Board of Chairs.
12. There is a minimum level of recurrently funded ongoing roles required in each LLS. Work is required to establish what this level is because previous approaches were built on a range of

assumptions about LLS operations. It may be that recurrent funding can be managed on a similar basis to revised approaches for Catchment Action NSW funding.

13. A policy for retail pricing, retail services and merchandise is required. This will feed into future budgets. The SET will set principles and allow regions to determine specifics.
14. A five year capital expenditure plan will be developed in mid- 2014. This will align with local and state strategic plans and NSW Treasury requirements.
15. Surpluses in a local region will be managed consistent with the Board of Chairs policy wherever possible. They will be returned for future regional service delivery, noting the corporate LLS requirements for managing Net Cost of Service to NSW Treasury.