POLICY 5.01

Finance and Internal Controls

Budget Management Framework

Version: 4 **| Next Review:** March 2028

DISTRICT COUNCIL of TUMBY BAY

1. INTRODUCTION

This policy provides clear direction to management and staff in relation to formulating, adopting, reviewing, and reporting on Council's budget processes and to maximise its financial performance.

Best practice financial management requires Council's elected body to focus on adopting budgets and monitoring financial performance, rather than the simple monitoring of individual budget lines. Management is required to monitor the budget at an operational level and report significant issues to Council through various nominated methods.

2. POLICY OBJECTIVE

The Budget Management Framework Policy (the Policy) provides Council and Council Management with a clear framework to operate within regarding the following:

2.1 the process, timing and considerations associated with the preparation of budget documents,

2.2 the content, timing, and process to be followed for reporting to Council on its performance against budget,

2.3 the scope and conditions associated with the approval of variations to budget allocations, and

2.4 the process and general guidelines in relation to the carrying forward of budgeted expenditure for projects into a future budget.

3. DEFINITIONS

Annual Budget: means the Council's statement of:

- its intended expenses, revenue and capital expenditure that give effect to its Annual Business Plan (ABP) for the reporting period,
- its cash inflows and outflows associated with intended operating, investing, and financing activities, and
- its projected financial position at the end of the reporting period.

Annual Business Plan means the Council's statement of its intended programs and outcomes for the year.

Annual Financial Statements means the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows (the Principal Statements) prepared in accordance with the Australian Accounting Standards, together with the notes and certification statements prescribed in the Model Financial Statements.

Key Financial Indicators mean the financial measures or ratios used in the management plan, annual reports, and other internal and external reports to guide or assess the financial performance and position of the Council. The three principal financial indicators are:

- ***Operating Surplus Ratio*** – This ratio expresses the operating surplus (deficit) as a percentage of total operating revenue. The ratio is calculated as operating revenue minus operating expense divided by operating revenue.
- ***Net Financial Liabilities Ratio*** - Net financial liabilities are a comprehensive measure of the indebtedness of the Council, as it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of the level of Council's available cash and investments. Specifically, *Net Financial Liabilities* equals total liabilities minus financial assets, where financial assets for this purpose includes cash, cash equivalents, trade and other receivables, and other financial assets, but excludes equity held in Council businesses, inventories and land held for resale.
- ***Asset Renewal Funding Ratio*** - This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in Council's asset management plan.

Financial Sustainability occurs when expenditure, revenue raising, and service level decisions are made such that planned long term service and infrastructure levels and standards can be achieved without unplanned increases in rates or disruptive cuts to services.

Model Financial Statements is a template format for the presentation of the Annual Financial Statements for South Australian Councils, complying with the Australian Accounting Standards and Local Government (Financial Management) Regulations and approved by the Minister.

Adjusted Annual Net Impact to Financing Activities (surplus/(deficit) is a 'flow' measure that takes account of both operating and capital activities for the financial year. Achieving a zero result on the Adjusted Annual Net Impact to Financing Activities measure in any one year essentially means that the Council has met all of its expenditure (both operating and capital) from the current year's income (with income including amounts received specifically for new / upgraded assets). A net deficit result in a particular year increases a Council's level of net financial liabilities in that year whereas a net surplus result reduces the level of net financial liabilities. Due to a number of factors which affect a small proportion of Councils, as well as the introduced timing adjustment for grant revenue, the net surplus / (deficit) amount for a financial year will not necessarily equal the change in the level of net financial liabilities over the relevant year.

Uniform Presentation of Finances means the high-level summary of both operating and capital investment activities of the Council prepared on a modified Uniform Presentation Framework basis, adjusted for timing differences associated with prepaid Federal assistance grants required to be recognised as revenue on receipt in accordance with Australian Accounting Standards. All Councils in South Australia have agreed to summarise annual budgets and long-term financial plans on the same basis.

4. INFORMATION

The 2005 Financial Sustainability Inquiry and subsequent changes in legislation have encouraged Council's elected body to assume a much more strategic function in terms of budget preparation and review. In short, the function of the elected Council is to review financial performance rather than simply monitor budgets.

This means that Council's budget management focus should be at higher, aggregate levels. It should be expected that if nominated service levels are maintained for each Council program, it should not be of consequence if a minor activity exceeds the budget, and a corresponding saving is made elsewhere within the same program. The Chief Executive Officer and Executive should be fully responsible to ensure that net program budgets meet Council's overall expectations and that service levels are maintained as intended.

This approach requires a structure whereby Council considers the performance of the budget in terms of high level indicators and targets, by monitoring the overall operating result and the appropriate application of funds to existing and new assets but a lower level of participation in the regular review of the financial progress of specific projects and programs, allowing the Chief Executive Officer and Executive to monitor the budgets at an operational level.

This policy provides the mechanism for the identification of the processes and responsibilities for budget preparation, monitoring, and reporting.

5. ANNUAL BUDGET

An Annual Business Plan and Budget shall be prepared by Council in accordance with section 123 of the *Local Government Act 1999*.

The primary elements to be considered to develop the annual budget will be as follows:

5.1 Major components of the draft budget:

a) Operating Expenses – employee costs, materials, contracts and other expenses, depreciation, amortisation and impairment and finance costs.

b) Operating Income – rates, statutory charges, user charges, grants, investment income, reimbursements and other income

c) Capital – asset replacement, new and upgraded assets, capital grants and contributions

d) Loan repayments, reserve transactions.

5.2 Planning considerations for preparation of draft budget:

- Strategic Plan, Infrastructure Asset Management Plan initiatives and objectives
- Long Term Financial Plan projections
- Annual Business Plan objectives
- Operating result at the end of the budget period
- Capacity to complete projects within the budget period
- Available resourcing and associated limitations

- Carryovers of uncompleted projects from previous year(s)
- Existing and projected debt levels
- Cash position and availability.

5.3 Statutory requirements for the budget financial statements:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Financial Indicators
- Uniform Presentation of Finances

6. BUDGET REVIEW & REPORTING

6.1 Preparation in consultation with:

a) Ordinary Meetings of Council

b) Elected Member Requests

c) CEO and Executive Staff Input

d) Community input and expectation

- Customer Service Requests
- Surveys
- Community Groups
- Progress Associations

e) Audit and Risk Committee (for review and comment)

f) Community Consultation

6.2 Indicative timeframes for preparation of the draft budget:

<u>November</u>

a) Review Rating Policy

<u>February</u>

a) Review and adopt IAMP's and Long-Term Financial Plan

b) Preparation of departmental budgets

<u>March</u>

c) Budget workshops held with Elected Members on draft budget assumptions, review of initiatives and projects and review draft budget to LTFP budget.

d) Preparation of Budget Draft One for Council consideration and direction

e) Complete review three of current budget including estimates for uncompleted projects

f) Import and balance new capital valuations.

g) Complete rates modelling scenarios as directed by Council

April

h) Apply amendments to Budget Draft Two including uncompleted projects

i) Preparation of draft Annual Business Plan

j) Council consider and provide direction on the following, in readiness for public consultation:

- Rebate of Rates
- Annual Waste Service Charge
- CWMS Service Charges
- General Rates
- Budget Draft Two
- Annual Business Plan

May

k) Public consultation on Annual Business Plan and Budget Draft Two

l) Audit and Risk Committee consultation on Annual Business Plan and Budget Draft Two

June

m) Consider Consultation

n) Finalise Budget and Annual Business Plan for consideration and eventual adoption

o) Adoption of:

- Annual Business Plan
- Budget
- Valuations
- Declaration of Rates
- Discretionary Rebates
- Instalment Payment Dates

6.3 Budget Review

Three (3) Quarterly Budget Reviews in line with legislative requirements shall be prepared in the months of October, January and March each year.

6.4 Reporting of Major Budget Variations

Council should be made aware of the financial success of any significant project, and of any significant over-expenditure or failed grant applications. Executive staff will be responsible to provide a report to Council detailing any significant savings or overruns on individual projects with any such report to be presented to Council at the earliest opportunity.

6.5 Approval of Variations outside the Scope of the Budget

Council approval must be sought and obtained before commitments are made that would result in major financial activity outside of budget limits or delegated authorities.

In considering a request for a revision to its Budget, Council will consider the impact that an approval would have on the financial indicator targets established in Council's Original Budget. It will also consider the capacity to increase other revenue or reduce other expenditure (either of a corresponding operating or capital nature as appropriate) to offset the variation and the merit of doing so.

Where circumstances so warrant (e.g. for reasons of urgent necessity or emergency), the Chief Executive Officer may authorise variations in activity that are not within the scope of approved limits for budget items, providing those variations made do not:

- in aggregate, materially exceed threshold value limits for that function/activity outlined in the Budget,
- materially impact on the quality, quantity, frequency, range, or level of service previously provided for or implicitly intended to the original allocation, and
- impact on any explicit proposals Council has included in its Annual Business Plan or has otherwise publicly committed to and accommodated in its budget.

Whenever such changes are made, the next Budget Review report shall include the variations and brief explanation for the decision.

6.6 Carryover of Uncompleted Projects from the Previous Year

6.6.1 Uncompleted Projects

At the end of each financial year, there are often incomplete works that require Council human and other resources to complete. These works are budgeted for within a financial year and there is an expectation that these works will be completed within the scheduled timeframe.

Various circumstances at times provide for challenges in completing all scheduled works, and there is often a requirement for these works to be carried forward to the following financial year.

- The following process will need to occur to allow any works to be carried forward to the following financial year. Assessment of incomplete works to be reported to Deputy Chief Executive Officer as part of budget review three to allow for consideration in future budget, cash flow implications, reserve fund appropriation, and cause of incomplete works.

- Deputy Chief Executive Officer to provide a report to Council for consideration and approval of incomplete works to be carried forward.
- Any incomplete works with guaranteed external funding will be automatically carried forward to the next financial year.
- 30 June adjustments to the value of any uncompleted works carried forward to be included in Budget Review 1 in the next financial year.

Recurrent expenditure items are excluded from this process unless due to exceptional circumstances.

6.6.2 Uncompleted Projects with Unguaranteed External Funding

It is normal practice for Council to budget for Councils funding component of works that Council then also seeks external funding through various sources.

Generally, the notification of funding applications is only provided during the financial year. If Council is not successful in achieving external funding, what should be done with the Council funded component?

The following process will need to occur to allow any Council funded component of a proposed project or capital works to be placed into the future projects reserve fund:

a) Assessment of unfunded projects or capital works to be reported to Deputy Chief Executive Officer as part of budget review three to allow for consideration in future budget, cash flow implications, reserve fund appropriation, etc.

b) Assessment of future external funding application processes and timelines.

c) Deputy Chief Executive Officer report to Council on projects and capital works that are relevant to this policy.

d) Council will then make the following decision:

- re-budget the specific project/projects, or
- place Council funded component into reserve fund.

A review of all reserve funds will be undertaken on an annual basis, as part of the budget and Annual Business Plan process.

Recurrent expenditure items are excluded from this process.

6.7 End of Year Reporting

The Audit and Risk Committee shall review the Annual Financial Statements and meet with the Council's external auditors to discuss any relevant issues.

Following audit and finalisation of the Annual Financial Statements, a Report on Financial Results shall be presented to an Ordinary Meeting of Council to compare budgets against the audited actual results for the previous financial year, in a format consistent with the Model Financial Statements.

7. ANNUAL FINANCIAL STATEMENTS

The draft Annual Financial Statements shall be presented to an Ordinary Meeting of Council following receipt of the draft Audit Completion Report and review by the Audit and Risk Committee. The audited Annual Financial Statements shall be included as an appendix to Council's Annual Report.

8. LONG TERM FINANCIAL PLAN

A Long Term Financial Plan will be prepared and maintained by Council in accordance with section 122 of the Act.

The Long Term Financial Plan will include a minimum ten-year projections for operating expenses and income, rates, capital investment and grants, loans and repayments, reserve transactions and other liability transactions.

The following objectives and principles shall be recognised in the preparation and review of the Long Term Financial Plan:

8.1 Preparation with reference to

a) Strategic Management Plan

b) Infrastructure Asset Management Plans

c) Rating Policy

d) Treasury Management Policy

8.2 Operating Activities

Facilities and services reasonably reflect community demand and expectation.

8.3 Existing Assets

a) Fund replacement and renewal primarily from annual operating revenue (i.e. cost of depreciation).

b) Address any identified "backlog" of asset renewal and replacement.

c) Refer to the Infrastructure Asset Management Plans to determine priorities, costings and timeframes.

8.4 New Assets

a) Fund new assets and upgrades to existing assets from grants, surplus or rationalised asset sales, developer contributions and operating surpluses. New loans should be used for major, long-lived assets only.

b) All projects to be assessed to ensure appropriate priorities are assigned.

c) Consider and encourage infrastructure assets provided by developers at no cost.

d) Refer to Infrastructure Asset Management Plans to determine priorities, costings, and timeframes.

e) Consider full life cycle costs and replacement implications.

8.5 Debt Management

a) Minimise new loans, use only to fund major, long-term projects and significant plant purchases when required.

b) Consider future repayment implications – impact on future budgets and rate increases.

c) Utilise operating surpluses and excess cash held to minimise future borrowings.

d) Consider a mix of fixed term, variable terms, and cash advance debentures.

8.6 Use Financial Reserves for the following activities

a) For the future replacement of infrastructure assets.

b) For accumulation of funds for future projects.

c) To identify funds received from third parties for specific purposes.

d) To keep a record of funds received and expended for specific purposes.

8.7 Financial Indicators

Ensure that responsible financial indicator targets are regularly set and reviewed.

8.8 Plan Review

The Long-Term Financial Plan shall be reviewed every year following the adoption of the Annual Business Plan and Budget, with presentation to Council prior to commencement of budget process.

The annual review will focus on significant variations and the inclusion/exclusion of projects following changes in Council direction. A full review of the Long-Term Financial Plan will be undertaken following a review of Council's Strategic Management Plan and its Infrastructure Asset Management Plans, within two (2) years following a Council election in accordance with section 122(4) the *Local Government Act 1999*.

The Audit and Risk Committee shall review and provide feedback to Council on its Long-Term Financial Plan, financial sustainability, and its consistency with other strategic management plans of the Council.

9. POLICY REVIEW

This Policy will be reviewed every two (2) years. The Council has the right to review this policy at any time, if considered desirable.

10. AVAILABILITY OF POLICY

This Policy will be available for inspection at the Council's offices during ordinary business hours and via the Council's website www.tumbybay.sa.gov.au. Copies will also be provided to the public upon request, and upon payment of a fee in accordance with the Council's Schedule of Fees and Charges.

11. FURTHER INFORMATION

File reference	R26/9635
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Applicable Legislation	*Local Government Act 1999* *Local Government (Financial Management) Regulations 2011*
Related Policies	Policy 5.22 – Rating Policy 5.24 Treasury Management
Related Procedures	Procedure 7.1.13 – Development of Budget Procedure 7.1.20 – Tracking Project Budgets

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SIGNED: 

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Responsible Officer