

	<b>POLICY# 5.01</b> <b>Budget Framework Policy</b> <b>POLICY AREA</b> <b>Finance and Internal Controls</b>	Version No:	1
		Issued:	Feb 2016
		Next Review:	After Council Elections

## 1. PURPOSE

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 STATEMENT

The intention of the Budget Framework Policy is to provide Council and Management with a clear framework to operate within regarding the following:

- the process, timing and considerations associated with the preparation of budget documents;
- the content, timing and process to be followed for reporting to Council on its performance against budget;
- the scope and conditions associated with the approval of variations to budget allocations;
- 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 Cashflow Statement (the Principal Statements) prepared in accordance with the Australian Accounting Standards, together with the notes and certification statements prescribed in the Model Financial Statements.

### 3. DEFINITIONS (cont'd)

**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 the Operating Surplus Ratio, Net Financial Liabilities Ratio and the Asset Sustainability Ratio.

**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.

**Net Lending/Borrowing** as specified in the Uniform Presentation of Finances represents the extent to which operating expenses (less depreciation) and capital expenditure exceed funding provided by operating revenue and amounts received specifically for new/upgraded assets. A net borrowing result increases Council's accumulated level of net financial liabilities, whereas a net lending result reduces the level of net financial liabilities.

**Uniform Presentation of Finances** means the high level summary of both operating and capital investment activities of the Council prepared on a uniform and consistent basis as required by the Model Financial Statements.

### 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.

In particular, 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 Managers 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 other Managers 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 122 of the Local Government Act 1999.

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

### Major components of the draft budget:

- Operating Expenses – employee costs, contracts, materials, finance costs, depreciation
- Operating Income – rates, user charges, grants, investments, reimbursements
- Capital – asset replacement, new assets, capital grants and contributions
- Loan repayments, reserve transactions.

### Planning considerations for preparation of draft budget:

- Strategic Plan, Asset Management Plan initiatives and objectives
- Capital Works Program and 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.

Relationship between Council's Strategic Management Plans:



### Statutory requirements for the budget financial statements:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Equity
- Cash Flow Statement
- Uniform Presentation of Finances.

## 6. BUDGET REVIEW AND REPORTING

### Preparation in consultation with:

- Ordinary Meetings of Council
- Elected Member Requests
- CEO & Executive Staff Input
- Community input and expectation
  - Customer Service Requests
  - Surveys
  - Community Groups
- Technical Services and Works Committee Meeting
- Council Workshop with Community Groups
- Audit Committee
- Community Consultation Meeting

### Indicative timeframes for preparation of the draft budget:

#### *February:*

- Review of capital project priority and capacity – Asset Management Plans (Executive)
- Community groups invited to submit projects for consideration of Council
- Preparation of works budget for operating and capital projects for consideration of TS&W C/tee (Works Manager)

#### *March:*

- Workshop to consider rating directions and policy (Council)
- Preparation of draft budget for consideration at workshop with Community Groups (Executive)

#### *April:*

- Workshop with community groups to consider draft budget and consistency with Council Strategic Plans. (Council)
- Completion review three of current budget including estimates for uncompleted projects (Executive)

#### *May:*

- Preparation of revised draft budget including full cost allocations for all expenditure (Deputy CEO)
- Preparation of draft Annual Business Plan (Deputy CEO)
- Special Meeting of Council to set Fees & Charges for New Year and adopt the following items for public consultation:
  - Rebate of Rates
  - Annual Waste Service Charge
  - CWMS Service Charges
  - General Rates
  - Budget Draft 2
  - Annual Business Plan
- Audit Committee meeting to consider draft documents and consistency with Council Strategic Plans

#### *June:*

- Public consultation including public meeting

## **6. BUDGET REVIEW AND REPORTING (cont'd)**

*July:*

- Council Workshop to review any significant consultation issues if required (Council)
- Special Meeting of Council to complete the following processes:
  - Adoption of Annual Business Plan
  - Adoption of Budget
  - Adoption of Valuations
  - Declaration of Rates
  - Adoption of Discretionary Rebates
  - Adoption of Installment Payment Dates

### **6.1 Budget Monitoring**

A Monthly Financial Report shall be presented to every Ordinary Meeting of Council. The Report shall compare the actual expenditures and revenues against the current Budgets.

### **6.2 Budget Review**

Three Quarterly Budget Reviews shall be prepared in the months of November, February and April each year. Each report will have two components, the first being in the form of financial statements as required by the Local Government Financial Management Regulations and the second being a cash analysis for Council information.

A final budget review will be prepared in July each year following the final payments for the financial year; this review will be presented as a cash analysis to provide Council with an accurate final cash position for the year.

### **6.3 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.

### **6.4 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 (eg 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 that variations made do not:

## **6. BUDGET REVIEW AND REPORTING (cont'd)**

- 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 an explanation and rationale for the decision.

### **6.5 Carryover of Uncompleted Projects from the Previous Year**

Funding approval for budgeted projects not completed at the end of any financial year is forfeited unless approval to carryover the project and associated budget allocation is granted by Council.

Operating activity budgeted for but not expended in a year shall not be carried forward to the following year. Identifiable operating projects that will not commence or be substantially completed in the year that they have been budgeted, should be re-evaluated and included (if appropriate) in the budget for the following year at the time of its adoption.

Similarly capital projects that have not been substantially commenced in one year should be considered against other competing priorities in determining the content of the budget for the following year.

Where possible and appropriate, Budget Review 3 in April shall identify any projects unlikely to be completed by 30 June and removed or adjusted for that financial year, to enable consideration for inclusion in the draft Budget for the following year.

### **6.6 End of Year Reporting**

The Audit 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 Financial Outcomes Report 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.

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

## **7. LONG TERM FINANCIAL PLAN**

A Long Term Financial Plan will be prepared and maintained by Council in accordance with Section 122 of the Local Government Act 1999.

The Long Term Financial Plan will include 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 generally recognised in the preparation and review of the Long Term Financial Plan:

### **Preparation with reference to:**

- Strategic Management Plan
- Asset Management Plans
- Rates Policy
- Treasury Policy

### **Operating Activities:**

- Facilities and services reasonably reflect community demand and expectation.

### **Existing Assets:**

- Fund replacement and renewal primarily from annual operating revenue (ie cost of depreciation)
- Address any identified “backlog” of asset renewal and replacement
- Refer to the Capital Works Program (Asset Management Plan) to determine priorities, costing’s and timeframes).

### **New Assets:**

- 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
- All projects to be assessed to ensure appropriate priorities are assigned
- Consider and encourage infrastructure assets provided by developers at no cost
- Refer to the Capital Works Program (Asset Management Plan) to determine priorities, costings and timeframes
- Consider full life cycle costs and replacement implications.

### **Debt Management:**

- Minimise new loans, use only to fund major, long term projects
- Consider future repayment implications – impact on future budgets and rate increases
- Utilise operating surpluses and excess cash held to minimise future borrowings
- Utilise mix of fixed term, variable terms and cash advance debentures.

## 7. LONG TERM FINANCIAL PLAN (cont'd)

### Financial Reserves:

Use reserves for the following activities:

- For the future replacement of infrastructure assets
- For accumulation of funds for future projects
- To identify funds received from third parties for specific purposes
- To keep a record of funds received and expended for specific purposes.

### Financial Indicators:

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

### Plan Review:

The Long Term Financial Plan shall be reviewed every year following the adoption of the Annual Business Plan and Budget, for presentation to Council by 31 December.

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 Asset Management Plan, within twelve months of each Council election.

The Audit 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.

## 8. FURTHER INFORMATION

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: [www.tumbybay.sa.gov.au](http://www.tumbybay.sa.gov.au)

- Council Administration Office, Corner Mortlock Street and West Tce, Tumby Bay

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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### Strategic Link:

### Delegation:

**Responsible Officer:** Deputy CEO

**Legislation:** Local Government Act 1999  
Local Government (Financial Management) Regulations 2011

**Authority:** Adopted by Council: 9 February 2016 {Motion 3c/022016}

SIGNED:

Responsible Officer

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_