

	<b>Annual Business Plan and Budget Policy</b> <i>Policy No. FINPOL 07</i>	<b>Version No:</b>	1.0
		<b>Responsible Officer/s</b>	Deputy CEO
		<b>Issued:</b>	15 Jul 2013
		<b>Next Review:</b>	Oct 2019

## 1. Purpose

The purpose of this Policy is to provide clear direction to management and staff in relation to developing, amending and reporting performance against Council's Annual Budget.

## 2. Scope

This policy provides direction on Council budgeting, including key principles underpinning budget development, consistent with the requirements of Section 123 of the *Local Government Act 1999* and Regulation 5B of the *Local Government (Financial Management) Regulations 1999*.

## 3. Definitions

**"Annual Business Plan"** is Council's basic statement of its intended programs and outcomes for the financial year. It links Council's longer term planning for its area, as set out in its strategic management plans with the allocation of resources in its budget.

**"Financial sustainability"** – A Council's long term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.

**"Asset Management Plan"** – is a plan developed for the management of one or more infrastructure asset classes with a view to operating, maintaining and renewing the assets within the class in the most cost effective manner possible, whilst providing a specific level of service."

**"Long Term Financial Plan"** – the Long Term Financial Plan (LTFP) is designed as a 'high-level' summarised document towards the future planning of Council's financial operations – particularly in relation to key components such as rate increases, service levels to our community, major infrastructure asset replacement/renewal, loan indebtedness and internal cash reserves.

**"Strategic Management Plan (SMP)"** – long-term, integrated and visionary plan which outlines the realistic aspirations of the Council.

**"Operating Surplus"** – operating surplus refers to the amount by which operating income exceeds operating expenses, before capital items, the net gain or loss on the disposal or revaluation of assets, and physical resources received free of charge.

## 4. Policy

### 4.1 Principles and Guidelines

The following principles underpin the development of the Annual Business Plan & Budget and budget reviews:

- Realistic budgeting – All budget figures will be realistic, based on the best available information, and utilise a zero-based budgeting approach.
- Financial sustainability – The budget will be developed in alignment with the Long Term Financial Plan, towards achieving Council's policy targets of financial sustainability.

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- Avoid cost shifting – We will resist pressure to accept cost shifting from other levels of government.
- Legislative compliance – The Annual Business Plan & Budget and budget reviews will comply with the relevant requirements of the Local Government Act 1999 and associated Financial Management Regulations.
- Council is committed to obtain available grant revenue that enhances and improves Council assets and programs.
- The Capital Works Program will allow for Council's asset renewal needs in line with its Asset Management Plans.
- Evaluate new initiatives – All new projects and capital works programs will be evaluated in terms of meeting Council's strategic directions and incorporate a cost benefit analysis which includes whole of life costing.

#### 4.2 Annual Business Plan

The Annual Business Plan is Council's statement of its intended programs and outcomes for the year and an explanation of the factors which have shaped it. It must align with:

- Council's key forward planning documents including the Strategic Management Plan, Long Term Financial Plan and Infrastructure & Asset Management Plan;
- Achieving Council's financial indicator targets.

The Annual Business Plan will include:

- A summary of Council's long term objectives, as set out in its strategic management plans;
- Significant influences for the year including financial factors, asset renewal needs and progress on continuing projects;
- Council's specific objectives for the next year against which its performance will be measured;
- A clear and concise illustration of the activities that Council proposes to undertake to meet its long term objectives, including indicators on how it will measure performance in both financial and non-financial terms;
- A summary of proposed sources of revenue for the year;
- Council's proposed approach to rating for the year and what it means for ratepayers.

Decisions in the annual business plan on matters such as project priorities and levels of service provision are subject to the funds available, as determined through the budget process and in the context of Council's Long-term Financial Plan and Asset and Infrastructure Management Plans.

#### 4.3 Annual Budget

Council will aim for the following in the development of its annual budget and business plan:

- An operating surplus ratio of up to 15 per cent, based on LGA Information Paper 12 Targets for Local Government Financial Indicators (March 2007) which suggests an operating surplus ratio of between zero and 15 per cent over any five year period;

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- An asset sustainability ratio between 100 and 110 per cent, based on LGA information Paper 12 Targets for Local Government Financial Indicators (March 2007) which suggests a ratio greater than 90 per cent but less than 110 per cent over a rolling three year period;
- A loan servicing capacity, based on loan repayments as a percentage of rate revenue, of less than 25 per cent;
- A favourable cash flow position at the end of each financial year, including a positive projected year end cash flow net of cash reserves.

#### 4.4 Process and Timing

In February each year Council will receive a proposed Annual Business Plan & Budget timetable, which meets legislative compliance with the process and incorporates final adoption of the business plan on or before 30 June of the following year.

Council will receive a draft Annual Business Plan in April/May each year which has been reviewed by Council's Audit Committee. It will be released for public consultation in accordance with Council's Public Consultation Policy in April/May each year.

Following consideration of feedback, Council will adopt the Annual Business Plan prior to the adoption of the Annual Budget, prior to June 30 June each year.

A clearly expressed and presented summary of the Annual Business Plan and Budget, highlighting the key issues relevant to ratepayers will be included with the first rates notice of the year.

#### 4.5 Budget Reporting Framework

The following budget performance reporting regime will provide Council with transparent and comprehensive information with which to track performance against the financial targets established in the Annual Budget:

- budget updates (at least twice per year);
- mid-year budget review;
- report on financial results (one report after completion and audit of annual financial statements for the previous financial year).

Council expects to receive reports at an aggregated level, to allow it to focus on its role of strategically managing Council's affairs.

All reviews will be presented for discussion by the Senior Management Team before being reported to council.

#### 4.6 Timing and Content of Budget Reporting to Council

A Budget Review report is to be prepared and included in the agenda of the Ordinary Meeting of Council in the months of October/November, January/February and April/May. The Budget Update will show, at summary level:

- Budget activity for the year to date;
- explanation of any proposed budget variations that have not previously been approved;
- preparation of the four principal financial statements (excluding notes);

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- a revised budget proposed for the financial year; and
- a revised forecast for the financial year.

#### 4.7 Approval of Variations to Budget

- Recommendations that are presented to Council that have the effect of increasing expenditure or decreasing income MUST indicate where alternative funding is to be sourced from.
- Where projects are completed under budget, the funds are to be retained in consolidated revenue to reduce Councils overall operating deficit.
- A variation that would result in either aggregated operating expenses or aggregated capital expenditure exceeding by the lesser of more than \$1,000 or 10% of the original corresponding approved budget allocation requires approval. Aggregate operating income falling short by more than \$1,000 or 10% from the original approved budget quantum requires Council's ratification.
- Council approval should be sought and obtained before commitments are made or events occur that would result in activity outside of the above budget limits wherever practical.
- In considering a request for a revision to its budget Council will consider the impact the approval would have on the achievement of the targets for financial indicators 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 so doing.
- Where circumstances so warrant (e.g. for reasons of urgent necessity) the CEO may in consultation with the Mayor authorise budget variations that would otherwise require Council approval. Wherever this occurs the following Budget Update must include information from the CEO explaining the rationale for the decision. This will also include advice as to the capacity to increase other revenue or reduce other expenditure (of a corresponding operating or capital nature as appropriate) to offset the variation and options for and the merit of so doing and the impact of the approval (and any offsetting proposals) on the achievement of the financial indicator targets specified in Council's budget.
- The CEO may vary allocations assigned for each function/activity listed in any report covering Budgeted Expenditure by Function/Activity without referral to Council, providing that variations made do not:
  - In aggregate exceed threshold value limits outlined above;
  - Materially impact on the quality, quantity, frequency, range or level of service previously provided for or implicitly intended in 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.
- Reports to Council should not include a recommendation that "funds are to be identified at the next quarterly budget review" or "the project be included in next year's budget" (although the item may be listed for consideration in either the next quarterly budget review or the following year's budget), as these two statements have the effect of committing Council to initiatives that it may not be able to fund.

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- Where an issue that has a financial implication is raised from the floor during a Council Meeting, it should be deferred pending a report presented to a future meeting so that possible funding can be identified before any recommendation is adopted.

#### 4.8 Carry Forward of Expenditure

Funding approval for budgeted activity not completed at the end of any budget year is forfeited unless approval to carry-over the activity and associated budget allocation is granted by Council.

Operating activity budgeted for but not expended in a year generally should not be carried forward to the following year unless tied to grant funding. Identifiable projects that will not commence in the year that they have been budgeted for should be re-evaluated and where approved, included in the budget for the following year at the time of its adoption. Similarly, capital projects that have not commenced in one year should be considered against other competing priorities in determining the content of the budget for the following year rather than treated separately as 'carried forward'.

Unspent funds relating to externally funded projects will be transferred to the Unexpended Grants Reserve at the end of each Financial Year. This reserve holds the balance of unspent grants and contributions received that are subject to specific expenditure requirements. Managers are to identify these projects and the carry forward component is to be provided to the Finance Department as soon as practicable after 30<sup>th</sup> June each year. The funds are held in this reserve until expended in accordance with the funding conditions. The grants and contributions held in this reserve are actual funds received and not accruals or debtors raised in lieu of funds to be received at year end.

### 5. **Responsibilities**

Overall responsibility for budget and budget review documentation rests with the Chief Executive Officer and Department Managers for their respective areas of responsibility, with the work co-ordinated by the Senior Accountant and Deputy Chief Executive Officer.

### 6. **References:**

#### **State Legislation**

Local Government Act 1999

Local Government (Financial Management) Regulations 2011

#### **Other Related Documents**

Strategic Management Plan

Long Tern Financial Plan

Asset Management Plans

Treasury Management Policy

### 7. **Review**

This Annual Business Plan and Budget Policy shall be reviewed by the District Council of Grant at minimum every four (4) years, within 12 months of a general election (or on significant change to legislation or other matters which could affect this policy).

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<b>Action</b>	<b>Date</b>	<b>Minute Reference</b>
Adopted by Council	15 July 2013	13074.2
Reviewed	1 February 2016	16007.1