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ANNUAL BUSINESS PLAN AND BUDGET POLICY

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Strategic Plan link: Strategy 1.2 Maintain financial viability and accountability in budgeting and administration.		
References and related Policies, Procedures and Forms: *Local Government Act 1999* Local Government (Financial Management) Regulations 2011 Australian Accounting Standards Board		

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1. Introduction

The preparation of an Annual Business Plan and budget is a critical component of Council's forward planning and responsible financial management as well as a statutory requirement of the Local Government Act. The purpose of this policy is to provide a framework for the Elected Council and Council staff in relation to:

- the preparation, consideration and adoption of the Annual Business Plan and Budget;
- the content, timing and process to be followed for reporting to Council on its performance against budget;
- the scope and conditions associated with requests for budget variations that are outside the scope of the approved budget allocations;
- the process required to be followed as well as general guidelines in relation to carrying forward of expenditure authority associated with projects included in the budget of the previous year; and
- the application of Grant Funding, and subsequent inclusion in the budget.

2. Definitions

- ***"Annual Business Plan"*** is Councils' 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.
- ***"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."
- ***"Asset Sustainability ratio"* –** indicates the extent to which non-financial assets are being reviewed and replaced compared with the asset renewal and replacement expenditure identified as necessary in Council's Infrastructure and Asset Management Plan and or depreciation.
- ***"Capital Expenditure***" – relates to expenditure for physical goods or services that has an economic benefit over future years, and are subject to Council's capitalisation thresholds.
- ***"Commenced Project"*** – Projects are considered to be commenced if any of the following have been undertaken;- initial planning has occurred, which may include contractors being engaged for surveying and or works: or quotations have been sought; or funding agreements executed; or development applications are lodged; and or expenditure has occurred.
- ***"Financial sustainability"*** is 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 and disruptive cuts to services. ***"Long Term Financial Plan"*** – the Long Term Financial Plan (LTFP) is designed as a "high-level" summarised document outlining the future planning of Councils' financial operations – particularly in relation to key components such as rate increase, service levels to our community, major infrastructure asset replacement/renewal, loan indebtedness and internal cash reserves.
- ***"Non Strategic Plans or documents***" – any other document that Council may use as a guide in relation to the long term, integrated and visionary plan which aligns with the aspirations of the Council.
- ***"Net financial liabilities ratio"*** *refers to total liabilities less financial assets expressed as a percentage of total operating revenue.*
- ***"Net asset renewal expenditure" -*** *refers to capital expenditure on renewing and replacing assets, excluding capital expenditure on acquiring new assets.*
- ***"Strategic Management Plan"*** – long term, integrated and visionary plan which outlines the realistic aspirations of the Council.
- ***"Operating Surplus Ratio"*** –refers to the operating surplus as a percentage of total operating revenue.
- ***"Operational Expenditure"*** – expenditure used for running a business entity on a daily basis

- ***Operating Surplus*** refers to the amount by which the 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.

3. Policy Statement

3.1 Each financial year, pursuant to the requirements of section 123(1) of the Act, Council will adopt:

3.1.1 an annual business plan; and
3.1.2 a budget.

3.2 The council's annual business plan, prepared as part of the budget process, will:

3.2.1 address Council's objectives, activities and performance measures;
3.2.2 assess Council's financial requirements;
3.2.3 address Council's rating structures and policies; and
3.2.4 take into account Council's long-term financial management plan, including significant infrastructure management issues.

3.3 The budget must be consistent with Council's annual business plan and be adopted after 31 May and before 15 August in any given year.

3.4 The budget will comply with requirements of the Act and regulations, and comprise:

3.4.1 a statement of financial position;
3.4.2 a budgeted statement of comprehensive income;
3.4.3 a budgeted statement of changes in equity;
3.4.4 a budgeted cash flow statement;
3.4.5 a summary of operating and capital investment activities; and
3.4.6 estimates of the operating surplus ratio, asset renewal funding ratio and net financial liabilities ratio.

3.5 Council will determine the form of the budget and annual business plan each year pursuant to the requirements of section 123 of the Act.

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

3.6.1 an operating surplus ratio of between zero and 10 per cent over any rolling three- or five-year period;
3.6.2 an asset renewal funding ratio of between 90 and 110 per cent over a rolling three- or five-year period;
3.6.3 a loan servicing capacity of less than 25 per cent, based on loan repayments as a percentage of rate revenue; and
3.6.4 a positive cash flow position at the end of each financial year, including a positive projected year-end net of cash reserves.

3.7 The following principles will underpin the budget development:

3.7.1 Honesty and Accountability - Council will be honest and accountable in all aspects of the budget process, meeting the community's expectations of transparency and openness with a reporting framework that supports and enhances this. Comprehensive information will be available each year in hard copy form and via Council's website and social media platforms, including full copies of the budget and the annual business plan.
3.7.2 Strategic Approach - Council will maintain a strategic approach to the delivery of all its services and capital works programs. The budget will respond to Council's strategic agenda and provide a foundation for the ensuing 10 years.
3.7.3 Asset Consumption - The budget and resulting long term financial plan will be prepared to align with the Infrastructure Asset Management Plan over a 10-year period.

3.7.4 Realistic Budgeting - All budget figures will be realistic, based on the best available information rather than using an incremental budgeting approach.,

3.7.5 Affordable Rates - Rates will be set at an affordable level having regard to Council's strategic directions and its social and economic objectives balanced against the community's ability to pay. Rate increases will be set within the 10-year framework of the long-term financial management plan, but this will be re-assessed annually.

3.7.6 Avoidance of Cost-Shifting - Council will resist pressure to accept cost-shifting from other levels of government.

3.7.7 New Initiatives - All new initiatives (such as proposed services, assets or programs) will be evaluated in terms of meeting Council's strategic directions and taking into account Council's financial performance including ratios.

3.7.8 Asset Sales and Debt - The operational budget will be structured such that there is no reliance on asset sales to fund core services. Debt will be regarded as a tool to be used strategically to achieve the provision of services to the community. Debt will be considered:

3.7.8.1 in the context of Council's strategic objectives;
3.7.8.2 in the context of long-term financial forecasts and objectives;
3.7.8.3 as funding for long-term infrastructure asset creation;
3.7.8.4 as a means of distributing the costs of infrastructure among the
3.7.8.5 ratepayers who use it (to achieve inter-generational equity); and
3.7.8.6 as a mechanism to fund temporary cash shortfalls.

3.7.9 Financial Control - Council commits to ensuring that financial and other resources under its control will be used only for approved purposes and within Council's strategic framework and that all risks to its finances are properly managed.

3.7.10 Financial Sustainability - Council is committed to being financially sustainable over the long term.

3.7.11 Responsibility - Overall responsibility for budget and budget review documentation rests with Council's Executive team. However, Council managers will compile budget and budget review information for their respective areas of responsibility, with the work co-ordinated by the General Manager of Business

3.7.12 Community Consultation - Council will consult the community annually on its budget and annual business plan as per requirements of the Local Government Act.

4. Budget Reporting Framework

4.1 Budget Update Review - Budget Review One and Three

A budget update report is to be prepared and included in the agenda of the Ordinary Meeting of Council's Finance and Risk Audit Committee at least twice per year

- Budget Review 1 – November
- Budget Review 3 - May

A report will be presented including an explanation of any proposed budget variations for the period ending as appropriate.

4.2 Mid-Year Budget Review - Budget Review Two

A further mid-year budget review will be prepared and included in the agenda of the Ordinary Meeting of Council's Finance and Risk Audit Committee in February each year.

The report will show a revised forecast of each item shown in the budgeted financial statements for the relevant financial year compared with estimates set out in the budget presented in a manner consistent with the Model Financial Statements.

The report will include a revised forecast of financial indicators operating surplus; net financial liabilities and asset sustainability compared with targets established in the original budget.

4.3 **Final review of Financial Results** – Budget Review Four

Regulation 10 of the Local Government (Financial Management) Regulations 2011, requires the Report of Financial Results to include the audited financial results for the previous year compared with the estimated financial results set out in the original budget achieved by 30 November.

5. Budget Variations

It is recognised that changes in circumstances may occur, resulting in expenditures that require budget adjustments. Such expenditures may include, but are not limited to:

- Increases in expenses due to unexpected findings
- Expanded project scope requiring additional funding to complete the project
- Changes in project priorities that necessitate reallocation of resources
- Urgent repairs that pose a risk to the community
- Essential repairs that are detrimental to a building or asset and could impact business continuity
- Legislative Change or requirement thereof.

Departments must document these circumstances and the associated budget variances promptly, submitting explanations identifying the need for additional expenditure, as per below:

Value	Reporting Method	Detail
0 - $5000	Next Budget Review	Brief explanation
$5,001 - $25,000	Next Budget Review	Brief (Template to be used)
$25,001 and over	Council Report	Full Council Report

5.1 **Budget Variations – Roads**

Due to the requirement to meet Roads to Recovery legislative spend, there are times, when there will be a requirement to amend the works program, often reallocating budgets between operating and capital. This policy notes that expenditure variations will occur, and therefore will not be included in the above thresholds.

5.2 **Budget Carryovers**

Budget Amounts that remain unexpended for any projects, that meet the criteria of the “projects commenced” definition, will be an automatic inclusion in the following financial year’ budget, and the budget will be amended in Budget Review 1.

Identifiable projects that will not commence in the year they have been budgeted for, but do not fall within the definition of a “projects commenced”, should be re-evaluated and where warranted, included in the budget for the following year at the time of its adoption.

5.3 **Grant Funding Applications**

Council Officers shall be authorised to undertake applications for Grant Funding in line with the Strategic Management Plan and other underpinning Strategic Documents.

Grant Application project costs should not be included in the Budget until the notification of that application being successful (or not) has been received.

Upon receiving notification that a Grant Application is successful, and prior to any Grant Funding Agreement being Authorised, Council shall be presented with a full report that advises of the project, the details of the grant funding and the rationale for accepting the grant, including financial impacts to the Budget and community benefit or strategic alignment of the projects.

On acceptance of the Grant Funding by Council, the impacts of the grant shall be included in the next Budget Review, or the financial year that the funding is applicable to.

6. Records Management

All records shall be kept and disposed of in accordance with Councils Records Management Policy & procedure and the General Disposal Schedule 20 Version 6.

7. Availability of Policy

This policy will be available for inspection at the Council's principal office during ordinary business hours at no charge and Council's website. Copies of this policy may be obtained upon request at a cost to be determined by Council from time to time.