

<b>Name of policy:</b>	<b>Budget Development</b>		
<b>Adoption by Council:</b>	<b>22 March 2023</b>	<b>Minute number:</b>	<b>93/2023</b>
<b>Last review date:</b>	<b>November 2022</b>		
<b>Review timeframe:</b>	<b>2 Years</b>		
<b>Next scheduled review date:</b>	<b>December 2024</b>		
<b>Related legislation:</b>	<b>Local Government Act 1993</b>		
<b>Associated policies/documents:</b>	<b>Nil</b>		
<b>Responsible division:</b>	<b>Corporate Services</b>		

## Policy objective

The objective of this policy is to provide guidance to the Council and staff in the annual budget development process by setting out the legislation, principles and parameters under which the budget is developed.

The policy supports sound financial management and is a key factor in ensuring Council's long-term financial sustainability.

## Policy statement

Council is committed to:

- sound budget management practices
- open and transparent communication with the community in the development, presentation and reporting of financial information
- providing economically and socially sustainable services to the community.

Council will maintain a strategic approach to the delivery of services, capital works and projects to ensure that the budget enables the objectives and strategies of the adopted Delivery Program to be achieved.

Budgets will be developed by management based on agreed service levels as set by Council and will be presented to Council for consideration and adoption.

## Coverage of the policy

This policy applies to Council, its management and employees.

## Strategic Plan link

This Policy supports Community outcome 4: Strong leadership and good governance

4.2 Council demonstrates good governance and financial management to ensure decisions and transactions are ethical, efficient, safe and fair.	4.2.1 Use governance frameworks and processes to guide our decisions and to ensure council is accountable to the community
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## Policy content

Developing and managing budgets is a fundamental element of Council's financial management framework. Effective budgeting will significantly contribute to the achievement of Council's goals and objectives as outlined within the adopted Delivery Program and supporting strategies.

Budgets are utilised to establish and communicate funding priorities, support decision making, set financial controls, and monitor and report financial performance. Effective budget processes, which underpin the efficient allocation of resources, enable Council to more readily identify and respond to change and government priorities.

A sound financial management governance framework contributes to Council meeting its responsibilities under the Local Government Act 1993.

Section 8B - 'Principles of Sound Financial Management' of the Act provides:

*The following principles of sound financial management apply to councils—*

- a) *Council spending should be responsible and sustainable, aligning general revenue and expenses.*
- b) *Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.*
- c) *Councils should have effective financial and asset management, including sound policies and processes for the following—*
  - i. *performance management and reporting,*
  - ii. *asset maintenance and enhancement,*
  - iii. *funding decisions,*
  - iv. *risk management practices.*
- d) *Councils should have regard to achieving intergenerational equity, including ensuring the following—*
  - i. *policy decisions are made after considering their financial effects on future generations,*
  - ii. *the current generation funds the cost of its services.*

Council discharges these responsibilities through the Integrated Planning & Reporting requirements of the Act.

The detailed annual budget is an essential element of the Operational Plan which also includes the development of the Statement of Revenue Policy. These elements set out how Council will provide the financial resources to deliver the works and services adopted in the Operational Plan and Delivery Program.

The Budget Development Policy is based on the following principles:

1. In finalising the annual budget Council will give due regard to its adopted position to meet or exceed the Office of Local Government and Fit for the Future benchmarks within the following timeframes (using the 2022-2023 financial year as the base year):

- a. Operating Surplus Ratio – to be met on an ongoing basis within 4-6 years
  - b. Own Source Operating Ratio – to be met
  - c. Unrestricted Current Ratio – to be met
  - d. Debt Service Cover Ratio – to be met
  - e. Debt Service Ratio – to be met
  - f. Rates, Annual Charges & Interest Outstanding % - to be met
  - g. Cash Expense Cover Ratio – to be met
  - h. Building & Infrastructure Renewals Ratio – to be met on an ongoing basis per asset class within 5 years
  - i. Infrastructure Backlog Ratio – to be met on an ongoing basis per asset class within 5-10 years
  - j. Asset Maintenance Ratio – to be met on an ongoing basis per asset class within 2 – 3 years
  - k. Real Operating Expenditure Ratio – to be met on an ongoing basis within 3-5 years
2. The following parameters are to be applied to each Fund (or nominated Business Activity). Those Funds and Business Activities are:
    - General Fund
    - Water Fund
    - Sewer Fund
    - MidCoast Assist Business Unit
  3. The adopted Long-Term Financial Plan will inform the development of the annual detailed budget.
  4. Budget Managers are to take a medium-term view (2-4 years) when providing input to the annual budget process.
  5. The impact of the draft annual detailed budget on the adopted Long-Term Financial Plan will be determined and considered prior to the adoption of the annual budget.

### Parameters

The following parameters will apply to the annual detailed budget development process:

1. Council will aim to adopt a surplus 'Net Budget Result' for each Fund / Business Activity. Note that the 'Net Budget Result' is determined by considering all funding sources, all expenditure items (operating and capital) and excludes the impact of non-cash items.
2. Budget bids to introduce new items into the annual budget or to increase service levels etc are to be accompanied by a detailed workplan outlining costs, benefits, options for funding, long term impact.
3. Council will adopt the maximum rate peg as advised annually by the Independent Pricing and Regulatory Tribunal (IPART). Price paths for Water and Sewer Charges will be guided by the Integrated Water Cycle Management Plan. The setting of Waste Charges will be guided by the relevant Long-Term Financial Plan (or IPART determination) that has been developed for that area.
4. Council will budget for employee costs for the adopted Organisation Structure in the first instance i.e. all approved positions. A review of vacancies and their ongoing funding will be conducted as part of the consideration of the draft budget result.
5. Asset related budgets should be informed by asset management plans, based on meeting agreed service levels and supported by work plans.
6. Proceeds from Asset sales will not be used to fund operations.

7. The use of borrowings to fund capital expenditure will be guided by the Loan Borrowing Policy.
8. The sourcing of grants to fund programs / projects will be guided by the External Grants Policy.
9. Fees and Charges will be reviewed on an annual basis with a focus on ensuring that the adopted fee reflects the relevant Pricing Category.
10. All overhead, job costing and plant hire rates will be reviewed on an annual basis to ensure that the methodology and underlying basis for any assumptions remain appropriate.
11. Indexation factors that are to be applied to budget components will be advised to budget managers at the commencement of the annual budget preparation process.

## **Definitions**

**Long Term Financial Sustainability** - A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.

## **References and related documents**

Nil

## **Responsible officer (position)**

Manager Finance

## **Attachments**

Nil