



Annual Budget Policy

Reference Number:	3.1
Type:	Council
Category:	Corporate Services
Relevant Community Plan Outcome:	<ul style="list-style-type: none"> Be bold and innovative in our practices, leadership and decision making. Adaptive and sustainable management of the City's finances.
Responsible Officer(s):	Manager Financial Services
First Issued/Approved:	August 2008
Minutes Reference:	CoS 4/02/2019, Item 3.6
Last Reviewed:	February 2019
Next Review Due:	February 2021
Applicable Legislation:	Local Government Act 1999 Local Government (Financial Management) Regulations 2011
Related Policies:	Long Term Financial Plan policy
Related Procedures:	Budget review procedure; Overview of Long Term Financial Plan and budget process

1. Purpose

The Local Government Act 1999 prescribes that a council must adopt for each financial year.

- (1) An annual business plan
- (2) A budget.

This policy seeks to endorse these requirements to ensure compliance with the Act.

2. Scope

This covers the annual budget requirements for the City of Charles Sturt.

3. Policy Statement

The budget must be considered in conjunction with the Council's Annual Business Plan and be adopted after 31 May and before 31 August for the ensuing financial year. The budget must comply with the standards and principles prescribed by the regulations under the Local Government Act 1999. The budget shall include budgeted financial statements, which must be presented, other than notes and other explanatory documentation, in a manner consistent with the Model Financial Statements.

The budget must also state whether the projected operating income is sufficient to meet projected operating expenses for the relevant financial year and include a summary of operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances.

As part of the budget process Council will prepare an Annual Business Plan which will address the activities the Council intends to undertake in the ensuing year to achieve its objectives and the key performance indicators that Council will use to assess its performance against its objectives.

Council's key performance indicators will include as a minimum estimate with respect to the councils operating surplus ratio, asset sustainability ratio and net financial liabilities presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

The basis for Council's budget each year will, in its initial stages of development, be a zero-based budgeting approach. The result will be evaluated and refined in terms of the Council's Long Term Financial Plan, corporate strategic plans and objectives and within the framework of Council budget assumptions and Community Plan Outcomes.

The following budget principles will underpin the budget development:

1. Honest and Accountable

We 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.

2. Strategic Approach

We will maintain a strategic approach to the delivery of all council services and capital works programmes. All expenditure decisions will align with the City of Charles Sturt's Community Plan outcomes.

3. Long Term Financial Planning

A 10 year Long Term Financial Plan will reinforce the delivery and achievement of Council's long term strategic objectives in a sustainable manner. All programmes will be regularly reviewed to ensure they fit within the Council's financial framework including key performance indicators which include the operating surplus ratio, net financial liabilities ratio and asset sustainability ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

4. Realistic Budgeting

All budget figures will be realistic, based on the best available information and utilise a zero-based budgeting approach.

5. Meet Long Term Liabilities

Each budget will be fully funded and reconciled on an accrual and cash basis. An asset renewal funding ratio of >80% is the desired target for expenditure on infrastructure assets. Adequate provisions will be made to meet Council's long-term liabilities with the net financial liabilities ratio <100%. Over the medium term (3-5 years) Council will aim to achieve an operating surplus ratio of $\geq 0\%$ and $\leq 15\%$.

6. Affordable Rates

Rates will be set at an affordable level having regard to the City's strategic directions and its social and economic objectives balanced against the community's ability to pay. Sustainable rate increases avoid a "rates shock" which is defined as a total rate revenue increase greater than double CPI (excluding growth) for 3 or more consecutive years for a "no policy change position" (in terms of service delivery).

7. Avoid Cost Shifting

We will resist pressure to accept cost shifting from other levels of government.

8. New Initiatives

All new initiatives will be evaluated in terms of meeting Council's strategic directions and incorporate a cost benefit analysis which includes whole of life costing.

9. 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 in a strategic perspective to achieve the provision of services to the community. Debt will be considered:

- In the context of the strategic objectives of Council
- In the context of long term financial forecasts and objectives
- As funding for long term infrastructure asset creation
- As a means of spreading the cost of infrastructure over the ratepayers who use it
- As a mechanism to fund temporary cash shortfalls.

A ratio of net financial liabilities as a percentage of operating revenue being less than 100% is considered an acceptable benchmark.

10. Financial Control

We commit to ensuring that financial and other resources under our control will be used only for approved purposes and within Council's strategic framework and that all risks to Council's finances are properly managed.

The budget performance will be reviewed by the GM Corporate Services or Manager Financial Services as at the following dates in the relevant financial year:

- 30 September
- 31 December
- 31 March
- 30 June

The GM Corporate Services or Manager Financial Services will present to Council through the Corporate Services Committee, as soon as practical after each of the above dates, a report that compares budgeted performance to actual performance with explanations for significant budget variances.

Quarterly actual performance will be compared to the revised budget which is the original adopted budget adjusted for changes endorsed as part of the budget reviews undertaken by Council.

For the 30 September and 31 March review the budget reviews should include a revised forecast of its operating and capital investment activities for the relevant financial year compared with estimates for those activities as set out in the budget. The format presented must be in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances.

For the 31 December review the budget review should include revised forecasts of each item shown in its budgeted financial statements for the relevant year compared with the estimates set out in the budget presented in a manner consistent with the Model Financial Statements. This budget review should also include revised forecasts for the relevant financial year of the council's operating surplus ratio, net financial liabilities ratio and asset sustainability ratio compared with the estimates set out in the budget and presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

Once the audited financial statements for the financial year ending have been completed a comparison of those results to the original budget adopted by Council for that year will be prepared including reasons for material variances.

Budget reviews are an opportunity for budget managers in light of changed circumstances or new events that may have occurred subsequent to the time of budget adoption to be addressed. Where the budget variance will have an impact on an item shown in its budgeted financial statements for the relevant year (presented in a manner consistent with the Model Financial statements) or vary the annual budget for a capital or annual operating project budget adopted by council as part of its budget deliberations the budget variance requested will be presented to the Corporate Services committee for approval with reasons for the variance.

The impact of the quarterly budget reviews must not materially erode the financial indicators position adopted as part of the original budget adopted by council based on an overriding principle that cost overruns must be funded by a commensurate cost saving and new projects or requests for service must be funded by a commensurate reduction in a project or service adopted as part of the original budget.

Surplus funds are used to retire debt unless a specific project is identified in the budget review to either address a legislative issue, meet a cost overrun, bring forward planned works from Council's adopted Asset Management Plans or to meet a Council resolution. Asset renewals can only be bought forward if they are included in the forecast 4 year program approved in the relevant adopted Asset Management Plan. The only exception is where there is a clearly documented and approved strategic or economic justification via a business case or annual project budget bid.

Any other newly identified projects must be brought to Council as part of the annual budget process to ensure it is reviewed in line with all other submitted projects.

4. Definitions

List all key terms and acronyms that are used in the policy, and their definition.

Key Term – Acronym	Definition
Model Financial Statements	Prescription endorsed in the Local Government Act regarding presentation of the annual financial statements, budget and long term financial plan.
Operating surplus ratio	This ratio expresses the operating surplus (operating revenues less operating expenses) as a percentage of operating revenue.

Asset renewal funding ratio	This ratio indicates whether council's capital expenditure on asset renewal/replacement of existing assets is what is needed to cost effectively maintain service levels as prescribed in Council's adopted Asset Management Plans.
Net financial liabilities ratio	This ratio indicates the extent to which the net financial liabilities or council's indebtedness can be met by councils total operating revenues.