

**Keywords:** Budget

<b>Strategic Plan:</b>	Goal 5 – Strong Internal Capability and Capacity
<b>Classification:</b>	Executive Services – Financial Management
<b>First Issued/Approved:</b>	June 2011
<b>Review Frequency:</b>	Biennially
<b>Last Reviewed:</b>	January 2018
<b>Next Review Due:</b>	January 2020
<b>Responsible Officer(s):</b>	Manager Corporate Services
<b>Council File Reference:</b>	7.11.1
<b>Applicable Legislation:</b>	Sec 123 Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Accounting Standards Accounting Regulations
<b>Relevant Policies:</b>	Asset Accounting, Asset Management, Rate Policy
<b>Related Procedures:</b>	(In accordance with relevant Legislative Acts)
<b>Delegations:</b>	Chief Executive Officer/Manager Corporate Services

### 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 ensure compliance with the Act and to document the preferred process with regard to the preparation of the annual budget and subsequent reviews. The purpose of this policy is also to provide guidance to Council, Elected Members and Staff on their respective roles in the process.

### 2. Principles

A number of factors are to be taken into consideration when preparing the annual budget process, including:

- Commitment to financial sustainability by taking into consideration the adopted financial indicator targets,
- Consistency with Council's strategic direction, Annual Business Plan and Long Term Financial Plan (LTFP),
- Accountability and transparency in the decision making process,
- Providing value for money for the services provided, and,.

- Maintaining the budget allocated to each project.

### **3. Policy Statement**

Section 7 of the Local Government (Financial Management) Regulations 2011 states that each budget of Council must:

- “(a) include budgeted financial statements, which must be presented, other than notes and other explanatory documentation, in a manner consistent with the Model Financial Statements; and*
- (b) state whether projected operating income is sufficient to meet projected operating expenses for the relevant financial year; and*
- (c) 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; and*
- (d) include estimates with respect to the council’s operating surplus ratio, asset sustainability ratio and net financial liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.*

It is the intention of Council that the Annual Business Plan and Budget process shall begin during the month of February each year, with adoption at Council’s June ordinary meeting, prior to the commencement of the relevant financial year 1 July.

#### Long Term Financial Plan

The LTFP will be for a period of 10 years, however Council will conduct an annual review of the programmes and schedules contained within the Plan and extract the updated relevant year of Council’s adopted LTFP to use as a guide for budget preparations for the upcoming financial year.

#### Key Financial Targets

Council has a set of key financial targets that it reviews and adopts on an annual basis to assist in setting the parameters of the LTFP, and therefore current and future budgets.

The targets include the operating surplus ratio, net financial liabilities ratio and asset sustainability ratio.

These targets are to be met where possible when preparing the budget for the upcoming financial year.

#### Budgeting for New Projects

The basis for Council’s budget each year will be a zero based budgeting approach. The outcome will be evaluated and refined in accordance with Council’s LTFP and corporate and strategic plan.

Projects included in the budget will be classified into three categories, being:

- Operating Projects
- Capital Projects – Renewal and Replacement
- Capital Projects – New

To ensure Council’s financial indicator targets are met, the LTFP and Infrastructure and Asset Management Plans (IAMP) will be used to guide the level of funding available for each category of expenditure.

Further, it is the responsibility of Department Managers to provide a cost benefit analysis and/or business case and rationale for proposed new projects, one-off operating projects and capital projects of a significant material nature for which Elected Members can base their considerations.

#### Operating Projects

Projects of an operational nature affect Council's Statement of Comprehensive Income, comprising of operating income and expenses.

Elected Members will be provided with a list and explanation of the operating projects for consideration for the upcoming financial year. Based on staff's comments and rationales, links to Strategic Plan and community needs, Elected Members will prioritise the operating projects to be undertaken.

Elected Members will have the opportunity to make adjustments to the proposed operating projects at a Council meeting before adopting the Annual Business Plan and Budget based on outcomes and submissions received from the community during the public consultation process.

#### Capital Projects – Renewal and Replacement

The LTFP will inform the Annual Business Plan and Budget as to the level of expenditure allocated for renewal and replacement projects. Council's Infrastructure and Asset Management Plans provide the level of expenditure required for the renewal and replacement of Council assets over a long term (10 year) basis.

#### Capital Projects - New

Where New Capital projects are included, borrowings may be required to fund these additional new capital projects. The key financial targets will be considered when deciding the economic value of new capital projects.

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.

Elected Members will be provided with a listing and explanation of new capital projects for consideration. Based on staff's comments and rationales, links to Strategic Plan and community needs Elected Members will make decision for the project's inclusion within the annual budget.

#### Budget Review

A budget review provides an opportunity to amend the previously adopted (or amended) budget. Changes to a budget may be required as further information is received during the year and due to unforeseen circumstances as projects progress. Reasons for these changes include:

- Different services expected by the Community;

- Additional funding received to carry out new or extended services;
- Projects or services delayed or stopped due to lack of resources,
- Variations to intended projects or services,
- Ad hoc budget adjustments.

As a result of the budget review, the budgeted operating result should at least remain the same where possible.

Generally, operating expenses budgeted for but not expended in a year should not be carried forward to the following year. Exceptions may be made for allocations made for special one-off operating projects that have not been completed in the applicable financial year.

Where capital projects are delayed to future financial years, the allocation should remain in the budget but the scope and funding requirements of capital projects that are committed or underway but not completed at the end of one financial year need to be reviewed and the projects re-considered for carrying forward as soon as possible in the following financial year.

The allocation remaining for the projects at the end of the financial year shall be included in the items to be carried forward to the following year, through the use of the Work in Progress Reserve.

Projects to be considered during the budget review process can be suggested at any time. A listing and explanation of these projects will be provided at the time of presenting the budget review for adoption. This will provide Elected Members with supplementary information to swap projects prior to adopting the revised budget.

Where there is a reduction in funds required for a project these funds may be allocated to other projects. Alternatively these funds may be identified as savings to Council's budget.

Section 9 (1) of the Local Government (Financial Management) Regulations 2011 sets out the requirements of Council pertaining to the timing and extent of its Budget Reviews and essentially consist of the following:

1. Budget Update (at least twice per year)
2. Mid-Year Budget Review (once per year)

In addition to the reviews as stated above the Local Government (Financial Management) Regulations 2011 as Section 10 require an end of year report to be presented to Council in order to review the financial year's budget performance against actual performance.

It is the responsibility of Department Managers to closely monitor the year's budget performance against actual performance and report to Council via the quarterly budget review processes of any anomalies that have arisen.

A quarterly report will be provided to Council comparing the revised budget which is the original adopted budget adjusted for changes endorsed as part of the budget reviews undertaken by Council with actual performance to the date of the report. This report will be at a 'functional' level of council activities only.

***Electronic version on the Intranet is the controlled version.  
Printed copies are considered uncontrolled.  
Before using a printed copy, verify that is the current version.***