

Annual Budget and Budget Performance Policy

First Approved	19 December 2016 (ACM16485)
Review Frequency	4 yearly or as required
Status	LGA Recommended
Last Reviewed	18 March 2019 (Resolution Ref: ACM1965) 22 May 2023 (Resolution Ref: C232023)
Next Review Due	January 2027
File Number	18.63.001 / PL2023165
Responsible Division	Corporate
Related Documents	Strategic Management Plans: <ul style="list-style-type: none">• Community Strategic Plan• Long Term Financial Plan• Infrastructure and Asset Management Plan LGA Financial Sustainability Paper 25 – Monitoring Council's Budget Performance
Applicable Legislation	<i>Australia Accounting Standards and Regulations</i> <i>Local Government Act 1999</i> <i>Local Government (Financial Management) Regulations 2011, r.7, 9 and 10</i>

Purpose

Alexandrina Council is committed to sound budget management practices and transparency in the development and presentation of financial information to the community. The *Local Government Act 1999* prescribes that a council must adopt an annual business plan and budget for each financial year, and regularly review its performance against budget.

Scope

This policy provides direction on Council budgeting, including key principles underpinning budget development for Alexandrina Council as well as providing clear direction to management and staff in relation to amending and reporting performance against Council's adopted budget.

Definitions

Operating Surplus Ratio refers to the operating surplus as a percentage of council's total operating revenues.

Net Financial Liabilities Ratio indicates the extent to which the net financial liabilities or council's indebtedness can be met by council's total operating revenues.

Asset Renewal Funding Ratio is calculated by dividing net asset renewal expenditure by the amount of renewal recommended in Council's Infrastructure and Asset Management Plans.

Policy Statement

Annual Budget

The budget will comply with requirements of the *Local Government Act 1999* and related regulations. As part of the budget process Alexandrina Council will prepare an annual business plan, which will:

- Address objectives, activities and performance measures of the Council
- Assess financial requirements
- Address rating structures and policies
- Take into account the Long Term Financial Management Plan and Infrastructure and Asset Management Plan.

The following principles will underpin the budget development:

- *Honest and Accountable* – 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. The Annual Business Plan will be available each in Council offices and Libraries and on Council's website.
- *Strategic Approach* – Council will maintain a strategic approach to the delivery of all council services and capital works programs. The budget will respond to the Council's Community Strategic Plan.
- *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.
- *Realistic Budgeting* – All budget figures will be realistic, based on the best available information and utilise a zero-based budgeting approach.
- *Affordable Rates* – Rates will be set at an affordable level having regard to the 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 on an annual basis.
- *Avoid Cost Shifting* – Council will have regard to the appropriate roles of Federal, State and Local Government when funding services.
- *New Initiatives* – All new initiatives will be evaluated in terms of meeting Council's strategic directions and incorporate a business case and cost benefit analysis which includes whole of life costing.
- *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
 - in the context of Council's Treasury Management Policy
 - as a tool to help Council achieve intergenerational equity.
- *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 Council's finances are properly managed.

- *Financial Sustainability* – Financial sustainability ratios will be reported upon in the budget of the Council, pursuant to requirements of the *Local Government (Financial Management) Regulations 2011*.

Council will aim to keep the indicators in the updated long term financial plan consistent with the following targets when developing its annual business plan and budget:

Indicators	Short Term Target	Medium Term Target	Long Term Target
Operating Surplus/(Deficit) Ratio - %	(2) to 1%	0 to 2%	3 to 6%
Net Financial Liabilities Ratio - %	≤120%	≤100%	≤80%
Asset Renewal Funding Ratio - %	90-110%	90-110%	90-110%

Council maintains and manages Community Wastewater Management Schemes (CWMS) for a number of townships throughout the region. It is important for the schemes to be financially sustainable and to help achieve this goal a separate long term financial plan is prepared with its own set of financial indicator targets:

Indicators – Community Wastewater Management Schemes	Short Term Target	Medium Term Target	Long Term Target
Operating Surplus/(Deficit) Ratio - %	(5) to 2%	(2) to 3%	2 to 6%
Net Financial Liabilities Ratio - %	≤250%	≤250%	≤200%
Asset Renewal Funding Ratio - %	90-110%	90-110%	90-110%

As Council's CWMS schemes are expected to be financially sustainable in their own right, a long term financial plan showing Council's position without the effect of CWMS is prepared with its own set of financial indicator targets:

Indicators – Council excluding CWMS	Short Term Target	Medium Term Target	Long Term Target
Operating Surplus/(Deficit) Ratio - %	(2) to 1%	0 to 2%	3 to 5%
Net Financial Liabilities Ratio - %	≤100%	≤100%	≤80%
Asset Renewal Funding Ratio - %	90-110%	90-110%	90-110%

Community consultation will occur annually on Council's Annual Business Plan and Budget in accordance with section 123 of the *Local Government Act 1999* and in accordance with Council's Public Consultation Policy.

Budget Performance

Amendments to the budget may be required as further information is received during the year. 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 are stopped due to lack of resources
- Cost increases outside of budget estimates
- Other budget adjustments as required.

The following factors will be considered when updating/amending the budget:

- Commitment to financial sustainability by ensuring that the adopted financial indicator targets are met
- Consistency with Council's strategic direction
- Accountability and transparency in the decision-making process
- Providing value for money for the services provided

A Budget Update report is to be prepared and included in the agenda of the Ordinary Meeting of Council as required by the Act or Regulations or where a subsequent agenda item for decision has a financial impact of \$25,000 or greater. The report will highlight at summary level original and revised budget information, prior approved amendments, the latest revised forecast of expected budget results and financial indicators for the current year, in addition to the revised three future years of the Long Term Financial Plan. The report will include an explanation of any proposed budget variations that have not previously been approved.

In considering a request for a revision to its budget Council will consider the impact any approval will have on the achievement of the targets for financial indicators established by Council for the current and next three years of the long term financial plan. 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 warrant, the Chief Executive Officer may authorise variations in activity that are within the scope of approved limits for budget items providing those variations made do not:

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.

Items of an emergency nature may be treated as an exceptional circumstance.

Whenever such changes are made, the following Budget Update or Budget Review must include information explaining the rationale for the decision.

A comprehensive mid-year budget review will be prepared and included in the agenda of an Ordinary Meeting of Council in accordance with the *Local Government (Financial Management) Regulations 2011*. The mid-year budget review will show a revised full year forecast compared with estimates set out in the budget. Material variations will be explained, and revised forecasts of Council's financial indicators and three future years of the long term financial plan will be included.

Budget items not completed at the end of any budget year are surrendered unless approval to carry-over the activity and its associated budget allocation is granted by Council.

Recurrent expenditure will not be carried forward to the following year and should be re budgeted where required.

The scope and funding requirements of capital projects already committed or underway but not completed will be reviewed and the projects considered for carrying forward at the next Budget Update or Budget Review, as appropriate.

A Report on Financial Results will be prepared and included in the agenda of an Ordinary Meeting of Council annually in accordance with the *Local Government (Financial Management) Regulations 2011*.

Availability of Policy

This Policy will be available for inspection on the Council's website www.alexandrina.sa.gov.au. Copies can also be provided upon payment of a fee in accordance with Council's Schedule of Fees and Charges.