

TITLE:	Budget Policy		
DIVISION:	Corporate Services		
ADOPTED BY:	Council		
DATE OF ADOPTION:	February 23, 2018	DATE OF REVIEW:	February 2019
MOTION NUMBER:	40/18		
POLICY NUMBER:	CP000002		
AUTHORISED:	Chief Executive Officer		

PREAMBLE

The aim of all policy is for Councillors to provide strategic input into the effective operational framework of the organisation under S.11 of the Local Government Act

SUMMARY

The council is committed to ensuring that it complies with the Local Government Act when adopting its budget and when conducting a budget review. To facilitate legal and regulatory compliance by the Council, and to allow its employees to have confidence that they are acting within the law, a comprehensive budgeting framework is established.

OBJECTIVES

To provide a framework for establishment and administration of Council's budget and to ensure that known variations to the budget are addressed in a timely manner.

This policy applies to Council's corporate budgeting activities including the annual budget and any subsequent reviews.

BACKGROUND

A budget expresses the council's strategic plan in financial terms by providing a one year forecast of income and expenses. The budget is also used to help determine the level of rates required to fund the services and projects outlined in the council's Regional Plan. The Council is required to comply with the Local Government Act when establishing it Budget and rules and procedures are also necessary when undertaking periodic review of year to date revenues and expenditures.

REFERENCE

Local Government Act 2009
Local Government regulation 2012

DEFINITIONS

To assist in interpretation the following definitions shall apply:

Council shall mean *Barkly* Regional Council.

Adopted Budget shall mean the original budget for Barkly Regional Council for the financial year including any amendments to the budget adopted by the local government under section 169 and 170 of the Regulation.

Community Plan shall mean a document that outlines the local government’s goals, strategies and policies for implementing the local government’s vision for the future of the local government area, during the period covered by the plan.

Corporate Plan shall mean a document that outlines the local government’s objectives, and the nature and scope of the activities proposed to be carried out.

Long- Term Financial Strategy shall mean a document that outlines the local government’s goals, strategies and policies for managing the local government’s finances, during the period covered by the plan including supporting asset management plans.

Manager Finance shall mean the person holding that position in Council’s hierarchy or in their absence the Chief Executive Officer.

Project shall mean an activity that is temporary in that it has a defined beginning and end in time, and generally a defined scope and resource requirement. A project is unique in that it is not a routine operation, but a specific set of operations designed to accomplish a singular goal. They could be operating or capital in nature.

The Act shall mean *Local Government Act 2009*.

The Regulation shall mean *Local Government Regulation 2012*.

POLICY STATEMENT

Barkly Regional Council’s budget cycle is aimed at addressing the need for:

- Long term financial planning;
- Detailed annual budgets supporting Council’s operating plans and revenue decisions;
- Reviews to address progress against the annual operating plan; and
- Reviews to align the budget with actual results.

This is illustrated as follows:



Philosophy

To deliver on Council’s mission a robust financial planning framework is required to support long term financial sustainability.

Financial sustainability is about Council being able to maintain its infrastructure capital and financial capital over the long term. In turn, long term financial planning relies on an understanding of the infrastructure funding needs of Council, including maintenance, upgrades and renewals. Council will use budgeting and long term financial planning to ensure the financial sustainability of the region is maintained for future generations. The following principles will be applied:-

- (a) The long term impacts of projects will be considered including Whole of Life costs.
- (b) Projects will be considered using a portfolio approach ie whole of council, to ensure the relative merits of individual projects are considered comparatively with all projects.

- (c) Grant funding will only be sought and accepted where projects are strategically aligned and the benefits outweigh the Whole of Life cost.
- (d) Asset Management Plans and Project Decision Frameworks will be used as a core decision making tool.
- (e) Where possible, projects of a similar nature should be grouped to take advantage of economies of scale.
- (f) Where possible, larger projects should be undertaken in a single location in lieu of small investments in multiple locations in the same budget cycle.

Council Reports

The following principles are to be applied when compiling official Council meeting reports that have a financial impact:-

- (a) Recommendations that are presented to Council that have the effect of increasing expenditure or reducing income (if adopted) MUST indicate where alternative funding is to be sourced from.
- (b) No report may include a recommendation that "Funds are to be identified at the next review".
- (c) No report may identify that "the project be included in next year's budget", unless the project has been considered as part of a Council budget process relating to the future financial year.
- (d) Where a recommendation states that the funds are to be allocated from various Reserve pools the report MUST include the current balance of the relevant account. This will enable Councillors to be fully informed prior to approving the allocation.
- (e) Only emergent projects/expenditure items should generally be incorporated into Budget Reviews.
Note: The overall intention for the Budget Reviews is to review performance and assess Council's financial position.
- (f) Where an item that has a financial implication is raised in the General Business section at a Council Meeting, a report is to be presented to a future meeting so that possible funding can be identified before the recommendation is adopted.
- (g) The budget is a "project" budget. Where projects are completed under budget, the funds are to be retained in consolidated revenue for those projects that may be over expended.
- (h) Where a Project Decision Framework is in place all proposed projects greater than \$100,000 must complete this process before being considered for inclusion in budgets.

Annual Budget Consideration

Throughout the financial year Council considers matters which may result in a referral to future budget considerations. Where this occurs in an open Council meeting it becomes a matter of public knowledge. These matters must be consistent with Council's Long Term Financial Forecast, when adopted.

During the lead up to the adoption of the original annual budget for a particular financial year, detailed presentations and working papers are provided to Councillors. The presentations and working papers may include potential expenditure, pricing and rating considerations and various scenarios on options to be considered before the adoption of the budget. This includes information pertaining to Council's commercial and general activities.

In the case of commercial activities, the disclosure of detailed pricing and expenditure information may be detrimental to Council's competitive position. Consequently this information is to be treated as confidential. Commercial activities include those activities defined as Type 1, 2 and 3 business activities in accordance with the *Local Government Act 2009*.

While there are no commercial considerations within Council’s general activities, the premature release of financial information being considered as part of budget deliberations may cause conjecture on the likely outcomes. The subtlety between information presented to Councillors to assist them with decision making and the intent of Council after considering all information, may be lost in public disclosure. In order to prevent misleading information in the media or unfounded public conjecture, it is therefore necessary to control the public release of information prior to the formal adoption of the budget.

As a matter of policy, all budget working papers including material presented on possible pricing, rating and expenditure is to be treated as ‘strictly confidential’.

In some instances portions of the above information may normally (outside of the budget process) be used to answer inquiries or comments from members of the public. In recognition of the operational need to continue to respond to public inquiries/comment during the budget preparation, the Mayor and CEO (or CEO delegate) are authorised to exercise discretion in releasing information which would otherwise be considered confidential under this policy.

Adoption Of The Budget

Council will adopt the budget at the highest level.

Operating Revenues	\$xx,xxx,xxx
Operating Expenses	\$xx,xxx,xxx
Operating Surplus/Deficit	
Capital Revenue	\$xx,xxx,xxx
Capital Expenses	\$xx,xxx,xxx
Net Surplus/Deficit	
Excluding Depreciation	\$ x,xxx,xxx
Nominal Surplus/Deficit	\$ xx,xxx

To promote accountability the council will adopt the budget by:

- Whole of Council
- Strategic Objectives
- Locality
- Functions/Projects

Budget Reviews

The Act is silent on how often a council should review its budget during the financial year. Generally at least two budget reviews will be completed each financial year in December and April. This policy has been established to ensure that council follows the following budget reviews process:

- Review council budget on a half yearly basis each financial year or when new expenditures need to be incurred; eg when additional grant funding requires to be expended ; and
- Consider a mid year report on the revised forecast of each item shown in its budgeted financial statements for the relevant financial year compared with estimates set out in the budget.

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. Reasons for these changes may include:

- Different services expected by the community;
- Additional or reduced funding received to carry out new or extended services;
- Projects or services delayed or stopped due to lack of resources; and
- Ad hoc budget adjustments.

Factors to take into consideration when administering the budget review process include:

- Commitment to financial sustainability by ensuring that the adopted key financial targets are met;
- Consistency with council's strategic direction;
- Accountability and transparency in budget decision making process;
- Providing value for money for the services provided;
- Maintaining the budget allocated to each project type; and
- Council operates within cash flows and use of reserve restrictions.

To ensure the principles of this policy are met, the following guidelines will apply during the budget review process. The exception to these guidelines occurs where circumstances are outside council's control. This may occur as a result of the following changes in circumstances:

- Any new funding agreements offered by governments;
- Changes to legislation or regulations; and,
- Financial shocks - a financial shock is an unexpected or unpredictable event that affects an economy, either positively or negatively.

Where these circumstances occur, or when carry forward items from the previous financial year are recognised in the budget, council should attempt to achieve its adopted financial targets.

Nominal Surplus/Deficit

The nominal surplus/deficit is calculated by deducting council's operating expenses from its operating income. This result is used to determine key financial target 1 (operating surplus) and assist in the calculation of key financial target 2 (operating surplus ratio). As a result of the budget review the budgeted operating result should at least remain the same where possible. The council budget cannot show a planned deficit.

A very conservative budget approach is to be taken at the early stages of the financial year due to the possibility of not meeting revenue targets or unforecast unavoidable expenditures. Should other additional funding also become available during the year, the first priority will be to ensure that approved projects have adequate allocations to meet the initial scope of the project.

Amendments to the Budget

There are a number of budget amendments that may be required during the year.

The process for handling various types of amendments is as follows:

Type of Amendment	Less Than 10% Variance # Or Less than \$100,000	Greater Than 10% Variance # Or Greater than \$100,000
Increased/decreased expectation of revenue.	At Manager Finance discretion*, adjust at next review.	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Increase or reduction in the scope of a Council approved project (operating or capital).	At Manager Finance discretion*, adjust at next review although consideration should be given to reporting to Council if there are other significant non-monetary impacts (e.g. change in risk, service level).	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Change in routine/operational item. (e.g. additional funds required in one project area, but savings available in another).	At Manager Finance discretion*, provided it is within the one Program area.	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Transfers between Programs.	At Manager Finance discretion*.	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Incorrect classification of projects as either operational or capital nature or incorrect allocation of Operational Plan, which is for accounting purposes only and has a Nil effect on Council's bottom line.	At Manager Finance discretion*.	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Information regarding additional grant funded projects and associated revenue and expenditure.	At Manager Finance discretion*.	Council approval required prior to work commencing. Report to Council at earliest opportunity.
Projects subject to reserve transfers as a funding source.	At Manager Finance discretion*.	Council approval required prior to work commencing. Report to Council at earliest opportunity.

Minimum variance for reporting purposes is \$ 10,000.

* Discretion may in fact mean the decision not to support the change or that a report must go to Council to obtain approval for the proposed change.

In addition, where there is any question over the allocation of revenue or expenses to a particular Department/Program the final decision shall be at the discretion of the Manager Finance and/or the Chief Executive Officer.

Where money is budgeted for capital projects in the previous financial year and during that previous financial year a commitment has been made to complete this work, however the work is not complete at the 30 June in that year, the current year's budget may be amended at the discretion of the Manager Finance by the amount of the surplus budget from the previous year's project.

NEW INITIATIVES AND CAPITAL PROJECTS

To assist in the definitions of council's financial targets, projects are classified into three categories, being:

- New initiatives (operating);
- Capital-renewal & replacement; and
- Capital-new.

New Initiatives: Services that are provided for the first time that may have consequences on future recurrent budgets, or are short term in nature.

Capital-Renewal & Replacement: Occurs where an asset's service life is extended but its service replacement capability is not improved.

Capital-New: Occurs where an asset is added to council's existing complement or where an existing asset is upgraded to provide additional capabilities or services.

Where possible, council should aim to ensure that its key financial targets are maintained or improved. The total budgeted net expenditure allocation for each of these project types should not be increased without a corresponding increase in revenue or a reduction in expenses in the same financial year.

In the case of new initiatives and capital constructions, consideration needs given and planned for operational inputs required for a period of the following five years.

Where such projects are delayed to future financial years, the allocation will remain in the budget unless by way of council resolution. 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 financial year, and recognised as part of the restricted reserves.

Projects to be considered during the budget review process can be put forward for consideration at any time. A listing and explanation of these projects for each project category 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 budget and/or revised budget.

New Initiatives

Where there is a reduction in new initiative projects, funds may be allocated to other new initiative projects. Alternatively, these funds may be identified as savings to the council's operating budget.

Capital-Renewal & Replacement

When a capital-renewal and replacement project does not proceed, it should be replaced by project(s) with the next highest priority in council's infrastructure and asset management plan subject to council's approval. Alternatively, the surplus funds could be allocated to the renewal and asset replacement reserve for use when required.

Capital New

New capital works requested by community organisations as an addition to council owned facilities must have at least 50% of the total cost of the project funded by the organisation, which can be through monetary contributions (upfront payment or lease arrangement), in-kind support, government grants or a combination of the methods. Council should not take on any new capital works projects if the projects are not viable and without the approval of the council.

Where there is a reduction in capital-new projects, the budget may be allocated to other identified capital-new projects, where a cost-benefit analysis justifies its inclusion. Where no

other capital-new projects are identified, the reduction in funds should be used to reduce any budgeted loans.

EVALUATION AND REVIEW

This policy will be reviewed annually. The Chief Executive Officer will report to council on the outcome of the review and make recommendations for amendment, alteration or a substitution of a new policy if considered necessary.

IMPLEMENTATION AND DELEGATION

The CEO has delegated authority to implement this Policy.

LEGISLATION, TERMINOLOGY AND REFERENCES

Section 128 of the Act provides for adoption or amendment of a council budget as follows:

1. A council must adopt its budget for a particular financial year on or before 31 July in the relevant financial year.
2. A council may, after adopting its budget for a particular financial year, adopt an amendment to its budget (but once allowances for the members of the council for a particular financial year have been set, they cannot be changed by amendment).
3. As soon as practicable after adopting its budget, or an amendment to its budget, for a particular financial year, a council must:
 - 3.1 Publish the budget or the amendment as adopted on the council's website; and
 - 3.2 Notify the agency in writing of the adoption of the budget or amendment; and
 - 3.3 Publish a notice in a newspaper circulating generally in the area informing the public that copies of the budget or amendment may be downloaded from the council's website or obtained from the council's public office.
4. The council's budget forms part of the council's municipal or Regional plan.