



Annual Budget Policy

Classification	Policy
Strategic reference	Goal 4: Governance and Organisational Culture
Relevant legislation	<i>Local Government Act 1999</i> <i>Local Government (Financial Management) Regulations 2011</i>
Relevant documents	Asset Management Plans Asset Management and Accounting Policy Long Term Financial Plan Rating Policy Funding Policy Treasury Management Policy LGA 'Financial Stability' information paper no. 20: rating and other funding policy options (revised May 2015)
Responsible officer	Manager Corporate Services
Date adopted	November 2023
Next review date	November 2026

1. Purpose

The *Local Government Act 1999* (the "Act") 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 Southern Mallee District Council.

3. Policy statement

The budget must be considered in conjunction with the Council's Annual Business Plan and be adopted after 31 May and, except in a case involving extraordinary administrative difficulty, before 15 August for the ensuing financial year. If council proposes to adopt after 30 June, council should provide general expenditure approval to the Chief Executive Officer in respect of defined operational and capital expenditure during the period commencing on 1 July and concluding upon the adoption of the budget.

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.

The electronic version accessible on Councils website and within Skytrust is the controlled version.
Printed copies are considered uncontrolled – before using a printed copy verify that is the current version.



Annual Budget Policy

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 an estimate with respect to the Council's 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.

The following budget principles will underpin the budget development:

a) 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.

b) 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 Southern Mallee District Council's Strategic Plan outcomes.

c) 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.

d) Realistic Budgeting

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

e) 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 >=0% and <=10%.

f) Affordable Rates

Rates will be set at an affordable level having regard to the Council's strategic direction 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).

The electronic version accessible on Council's website and within Skytrust is the controlled version. Printed copies are considered uncontrolled – before using a printed copy verify that is the current version.



Annual Budget Policy

g) Avoid Cost Shifting

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

h) 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.

i) 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.

j) 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.

4. Budget performance and development

The budget performance and development will occur as follows each financial year:

- November
 - Budget Review 1
- December
 - Executive Team to commence planning and timetabling (review of current budget, focus on delivering current financial year budget and grant funding, workshop on potential budget initiatives)
 - Ongoing discussion with Councillors about budget ideas – particularly in Elected Member/CEO regular meetings
- January
 - Executive Team to progress detail of budget proposals such as costing and quotations
 - Initial draft capital program developed by executive team and provided to Elected Members for consideration over time and enable them to inspect any of the proposed project sites



Annual Budget Policy

- February
 - Budget Review 2
 - Executive Team budget workshop on capital and operational projects
 - Council workshop/briefing regarding budget development
 - part 1 capital budget, part 2 operating budget
 - discussion paper regarding rates
 - Councillors to submit budget initiatives
- March
 - Second budget refinement workshop
- April
 - Budget Review 3
 - Review of final proposed budget by Audit and Risk Committee and Council
 - Council releases draft budget for formal community consultation (Council meeting decision)
- May
 - Community public consultation meeting
- June
 - Formal consideration of community feedback and adoption of budget (Council meeting decision)

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 November, February and April reviews 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 management 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 Council for approval with reasons for the variance.

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 10 year program approved in the relevant adopted Asset Management



Annual Budget Policy

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.

5. Definitions

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

Key term	Definition
Model Financial Statements	Prescription endorsed in the <i>Local Government Act 1999</i> , 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.

6. Policy review

The effectiveness of this policy will be reviewed every three years or as necessary.

7. Further information

This document is available on Council's website www.southernmallee.sa.gov.au and at the principal office of the Southern Mallee District Council at Day Street, Pinnaroo SA 5304.