

# **Budget Development and Management Policy 2023**

**POL004**



<b>Policy No:</b>	<b>POL004</b>
<b>Policy Title:</b>	<b>Budget Development and Management Policy</b>
<b>Section Responsible:</b>	<b>Finance</b>
<b>Minute No/Ref:</b>	<b>23/042</b>
<b>Doc ID:</b>	<b>637257</b>

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## **1. INTENT**

Narrandera Shire Council is committed to sound budget management practices and transparency in the development and presentation of financial information to the community. This policy outlines how Council meets its responsibility of sound financial management to remain financially sustainable and comply with statutory obligations.

## **2. SCOPE**

The policy relates to all Council's budgeted revenue and expenditure and applies to councillors and all staff involved in the financial management of Council's resources.

## **3. OBJECTIVE**

The policy goals include:

- To set the framework and reporting requirements of Council's budget process to maximise its financial performance.
- To provide transparency and define principles to guide decision making for everyone involved in budget and financial management.
- Support transparency and accuracy in all of Council's financial activities to ensure compliance with financial reporting requirements.
- Comply with Acts, regulations and financial management principles outlined in Part 3 Division 1 of the Local Government Act 1993 (the Act).

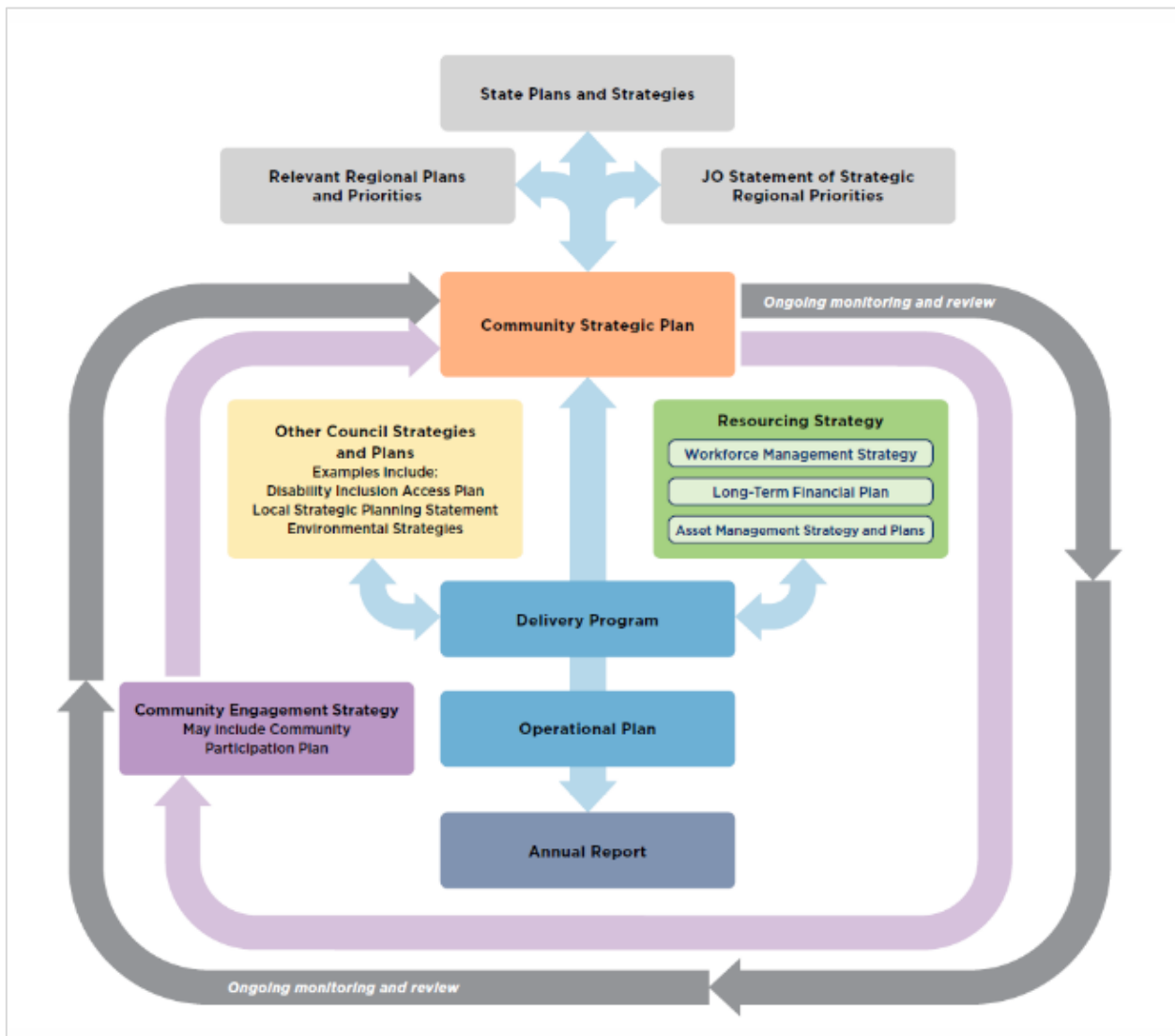
## **4. POLICY STATEMENT**

Narrandera Shire Council is the custodian of significant community assets. These assets have an enormous impact on the delivery of programs, services, and projects therefore it is crucial that they are well managed.

To ensure best practice financial management and statutory compliance, Council is committed to:

- Sound budget management practices.
- Comprehensive systems, processes, and controls embedded into the organisation with a view to maintain financial sustainability.
- Financial risks are monitored and managed prudently, eg: financial viability, current and future liabilities.
- Open and transparent communication with the community and councillors in the development, presentation, and reporting of financial information.
- Providing economically and socially sustainable services to the community.

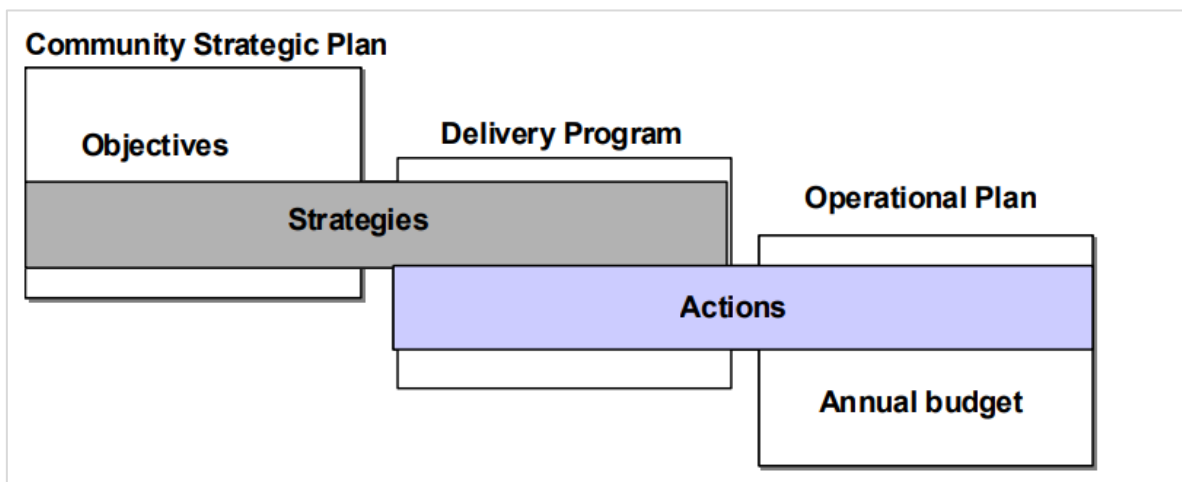
The integrated Planning and Resource framework comprises the Community Strategic Plan, Resourcing Strategy, Delivery Program, Operation Plan and Annual Report. The below diagram depicts the framework relationships, details of each can be found in the definitions.



Preparation of Resourcing Strategies (Asset Management, Long Term Financial Plan, Workforce Plan and Delivery Program) is a critical component of Council's forward planning for service delivery and responsible financial management. It is a four-year plan that outlines Council's objectives and strategies for implementation of its vision for the period of the plan.

The Operational plan provides a financial plan to implement the Resourcing Strategies for the year ahead which can be monitored to ensure that Council operates within its financial capacity and remains financially healthy.

The below diagram depicts the relationship between the Community Strategic Plan, Delivery Plan and Operation Plan.



## 5. PROVISIONS

### 5.1 BUDGET PRINCIPLES

To ensure that Council remains financially sustainable the following principles apply:

#### 5.1.1 General financial principles

##### Sustainable budgeting

- Council will implement a sustainable financial strategy that:
  - Caters for short and long term
  - Factors in community expectations
  - Is linked to the Delivery Plan
  - Is committed to achieving an annual surplus to contribute to capital projects.

##### Cash management

- Council will manage cash to ensure sufficient levels to meet its requirements and will:
  - Maintain sufficient cash to meet day to day operational needs and avoid the use of overdraft facilities.

- Maintain sufficient cash to fund all externally and internally restricted cash, current liabilities, and a minimum unrestricted cash amount of \$200,000 on balance day.

### **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 with all risks to Council's finances are properly managed.

### **Strategy**

- Council will maintain a strategic approach to the delivery of all council services and capital works programs. The budget will respond to the strategic agenda of the Council and provide a foundation for moving forward over the ensuing 10-year period.
- Consider private/public partnerships, shared services, and collaborative projects where appropriate.

### **5.1.2 Revenue principles**

#### **Rates and charges revenue**

- Council will:
  - Review rates annually following the announcement of the rate peg set by the Independent Pricing and Remuneration Tribunal (IPART).
  - Consider making an application for a higher rate peg should there not be sufficient income to fund the Operational plan, Long Term Financial Plan and/or meet current expenditure commitments.
  - Rating will be applied as equitably as is practical and will comply with the Department of Local Government *Council Rating and Revenue Raising Manual*.
  - Where it is possible to identify the direct benefit of a service, charges should reflect the cost of the service to reduce rate subsidies.
  - Ensure the restriction of funds where a special rate or charge has been levied (Waste, Stormwater, Water, Sewer).
  - Council will consider pricing and contracts to deliver waste services that:
    - Reduce waste to landfill
    - Increase reuse of resources through recycling and avoidance initiatives
    - Encourage community understanding of waste management
    - Are in line with legislative requirements and best practices
    - Are cost neutral through appropriate fees and charges and rating strategies.

#### **User fees**

- Council will set fees and charges having regard for:
  - Pricing principles (profit, break even, subsidy)
  - Marketplace competition

- User capacity to pay
- Equity between services
- Community service benefit
- Benchmarking of similar services.
- Costs will include:
  - Overheads
  - Identification of service subsidy.
- Council will:
  - Increase fees based on cost increases
  - Consider pricing to encourage behaviour changes
  - Advocate for statutory fees not governed by Council to be increased appropriately.

### **Grant revenue**

- Council supports funding from other levels of government and will seek to maximise all appropriate external funding opportunities.
- Council opposes cost shifting, and where cost shifting occurs, Council will communicate to its community the impact of these cost impositions.
- Council will only accept external funding if consistent with the Council Plan.
- Council will avoid distortion of priorities due to the availability of external funding.
- Funds received from other levels of government would be expected to meet full direct and indirect costs.
- Where Council chooses to subsidise a funded service, the contribution should not outweigh the community benefit.

### **Borrowing**

- Borrowing will not be used to fund ongoing operations.
- Borrowings are appropriate for funding large capital works where the benefits are provided to future generations.
- Debt servicing costs are funded from future revenue streams, impacts on future budgets and rate increases will be reviewed.
- Operating surpluses and excess cash held will be utilised to minimise future borrowings.
- Council will maintain its debt at levels that are sustainable, with:
  - Indebtedness <60% of rate revenue
  - Debt servicing costs <5% of total revenue (excluding capital revenue).

### **5.1.3 Asset management principles**

- Council will acquire and dispose of assets in the best interest of the community.
- When disposals occur Council will ensure that there is a clear Council or community need, a thorough community and financial assessment is undertaken, and sales of property will not be used to fund operational expenditure.
- Council will ensure that regular reviews of asset rationalisation is conducted.

## **Asset renewal**

- Council will provide well maintained community assets that are fit for purpose, provide best possible community benefit and within the financial capacity of the Council.
- Council will provide for ongoing asset maintenance and renewal for existing assets by:
  - Basing maintenance and renewal on condition rating and interventions set by asset management strategies
  - Anticipating and managing risks of asset failure
  - Committing to increasing expenditure on renewal to sustainably manage assets
  - Ensuring appropriate expenditure is provided for compliance and safety regulations.

## **New asset**

- Council will ensure that community has access to infrastructure that meets its needs with regards to current and future needs.
- Construction and acquisition of new assets must:
  - Remain within the limitation of Council's financial and resource capabilities
  - Provide clear tangible benefits
  - Consider both current and future generations
  - Consider asset substitution as a source of funding new assets
  - Consider consolidation of services where appropriate
  - Undertake financial analysis about resultant additional operational maintenance and renewal costs
  - Consider full life cycle costs and replacement implications.

### **5.1.4 Service delivery principle**

#### **Expenditure review principle**

- Council will review levels of expenditure.
- Ongoing service reviews will assess service in accordance with:
  - Demonstrated community needs
  - Stakeholder views
  - Access, equity of need and benefit to the community
  - Community expectation of service level and quality
  - Legislative imperatives
  - Identification of alternative providers, both public and private
  - Council's capacity to provide the service and funding availability
  - Other budget priorities.

## **5.2 OPERATIONAL PLAN**

In accordance with Section 201 of the *Local Government Regulation (2021)* Council must adopt a budget at the commencement of each financial year, referred to as the original

budget. Council’s budget provides the authority for the expenditure of funds in each financial year. Furthermore, in accordance with Section 203 Council may, by resolution, amend the budget for a financial at any time before the end of the financial year through a budget review.

The Operational Plan will be developed in aggregation with the 10-year Long-Term Financial Plan (LTFP). The Budget documents will comply with the requirements of the Act, Code and regulations, comprising:

- Budgeted Income Statement
- Budgeted Balance Sheet
- Budgeted Cash Flow
- Budgeted Equity Statement
- Capital investment activities
- Revenue Policy
- Fees and Charges

### 5.2.1 Budget parameters

Council is committed to maintaining a balanced or surplus budget position that is financially sustainable in the longer term. As such, it will reflect the financial sustainability measures outlined in the Policy Statement.

To ensure Council is meeting financial targets the following financial indicators will be reported in the annual budget, quarterly budget review statements and financial statements.

<b>Performance Measure</b>	<b>Purpose of Performance Measure</b>	<b>Benchmark</b>
Operating performance ratio	Measures council’s achievement of containing operating expenditure within operating revenue	> 0.00%
Own source operating revenue ratio	Measures fiscal flexibility, it is the degree of reliance on external funding sources such as grants and contributions	> 60.00%
Unrestricted current ratio	Assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council	> 1.50%
Debt service cover ratio	Measure the availability of operating cash to service debt including interest, principle and lease payments	>2.00x
Rates and annual charges outstanding percentage	Assesses the impact of uncollected rates and annual charges on Council’s liquidity and the adequacy of recovery efforts	<10.00%
Cash expense cover ratio	Indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow	>3.00 months



## Major components of the budget:

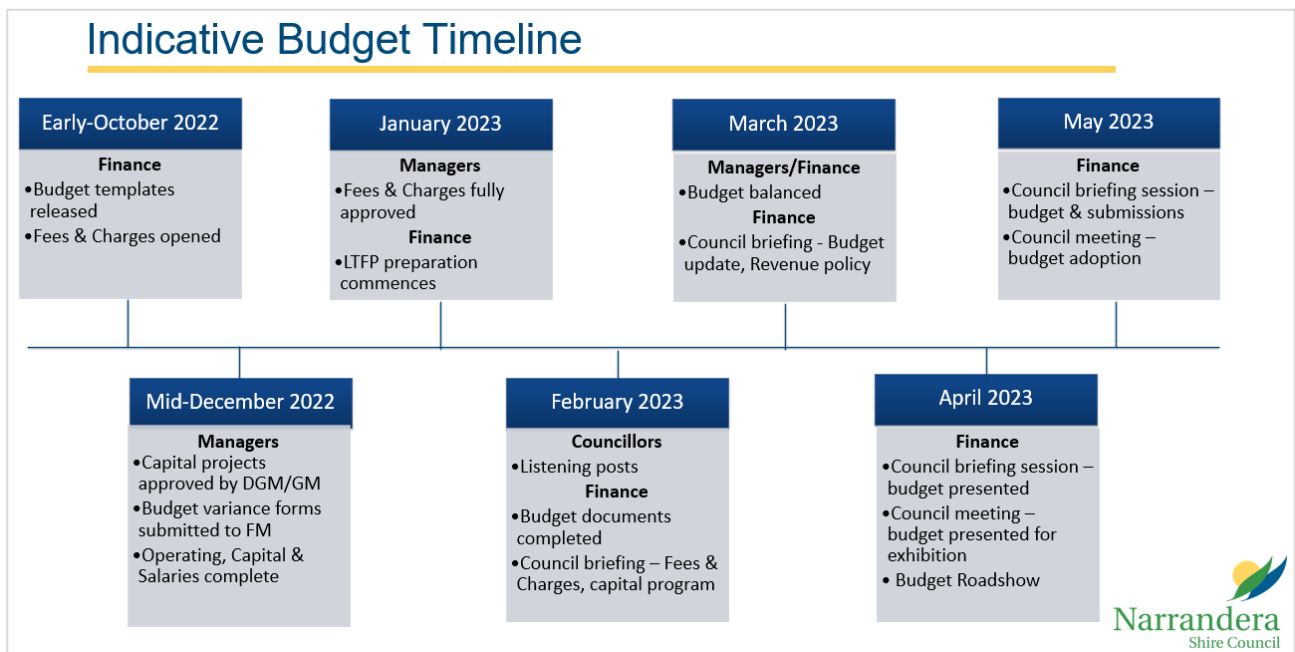
- Operating Income – rates and annual charges, user charges and fees, grants and contributions, interest and investment income, other revenues and other income.
- Operating Expenses – employee costs, materials and services, borrowing costs and depreciation.
- Capital – asset replacement and new assets.
- Loan repayments, reserve transactions and cash position.

### 5.2.2 Budget process and timeline

The budget process to which Council must comply to is outlined in Chapter 13 Part 2 of the Act. The operational plan must be adopted annually by 30 June.

Council will maintain a strategic approach to the delivery of services and capital works to ensure that the budget enables the objectives and strategies of the Delivery Plan. The Budget will be developed by management based on agreed service levels as set by Council in accordance with Councils budget principles 5.1.2.

The indicative timeline of the process is presented below.



### 5.2.3 New budget initiatives

New initiatives will be evaluated individually based on priority, merits, Council strategy and in accordance with the below weighting.



- Delivery Plan – Addresses an area of improvement identified by the community
- Risk – Budget initiative mitigates an identified risk to Council
- Financial – Budget initiative will improve Council's financial position
- Reason – The underlying purpose for undertaking the new initiative
- Benefit – Benefit to the community and/or Council

### 5.2.4 Community engagement and reporting

Throughout the budget process Council will be honest and accountable meeting the community expectations of transparency and openness.

Council will place on 28-day exhibition the strategic documents identified in 5.2 for community consultation. The budget will be prepared in consultation with:

- Ordinary meetings and Strategic workshops of Council;
- Informed by the Delivery program;
- Tours, inspections and listening posts;
- Community surveys, service requests and submissions to the budget .

Comprehensive information will be available as advertised annually each year on Council's website and at the Council chambers.

## **5.3 BUDGET REVIEWS AND REPORTING**

### **5.3.1 Budget monitoring**

Council is committed to ensuring that community resources under its control are used for approved purposes and that all risks to Council finances are properly managed.

In accordance with clause 202 of the Regulation (2021) a monthly report will be prepared for circulation to all Managers responsible for budgets. The report will provide all projects and activities under the officer's responsibility, along with current budget and year to date actuals to the end of the reporting period. Management is responsible for the ongoing monitoring of budgets and shall check each item, reporting any concerns and/or anomalies immediately to Finance.

A monthly income statement and capital works report shall be presented to the Ordinary Council meeting for information, this will be in addition to Quarterly Budget Review Statements. The report shall compare the actual income and expenditure against the current budget including a detailed analysis of capital projects. Any material variances are to be reported to Council at its next ordinary meeting.

### **5.3.2 Budget reviews**

Quarterly Budget Review Statements (QBRs) shall be prepared in accordance with Clause 203 (1)(2)(3), no later than 2 months after the reporting date in the prescribed format. The Quarterly periods reflecting the periods ending 30 September, 31 December, and 31 March. The QBRs is composed of, but not limited to, the following components:

- Responsible accounting officer statement on Council's financial position at the end of the year based on the information in the QBRs
- Budget Review Income and Expenses Statement reported by fund
- Budget Review Capital Budget
- Budget Review Cash and Investment position
- Budget Review Key Performance Indicators
- Budget Review Contracts and Other Expenses
- Council report detailing reasons for the reported adjustments

Whilst not legislated, to ensure transparent and accountable financial reporting Council will conduct a June budget review to balance actual expenditure to voted budgets and the results reported to the Executive Leadership Team. Significant variations to budget will be reported to Council through the Financial reports.

### **5.3.3 Budget variances**

Over the budget year managers can review and request variances to the original budget. Any information that affects the budget is to be incorporated into a future budget review as soon as practical after the information is known.

Council approval must be sought and obtained before commitments and/or expenditure is made outside of approved budget limits. When requesting a budget variation for a new

initiative or additional expenditure to the budget, managers must identify the source of funding in the following in order of preference:

- Grant or external contribution directly related to the expenditure
- Reduced expenditure or increased revenue within the budget holder's responsibility in which the expenditure is to be incurred.
- Reduced expenditure or increased revenue within the same directorate in which the expenditure is to be incurred.
- Reduced expenditure or increased revenue within another directorate.
- New loans or existing cash reserves, this option is to only be used once all the above options have been exhausted.

Where it becomes apparent that operational expenditure will exceed the approved budget and funding source cannot be obtained a report shall be prepared to Council within 60 days including detailed information on the history, cause and the financial and strategic implications.

In accordance with Council's project management manual, where it becomes apparent that the actual expenditure of a capital project will exceed the approved budget a report shall be prepared to the next Executive Leadership Team meeting including detailed reasons for the over-expenditure. The approved minutes of the meeting are to be provided to the Finance department along with a budget variance request for inclusion in the next quarterly budget review.

If all quarterly budget review opportunities have passed for the financial year (May-June) then a report shall be prepared to Council by the project manager to approve the budget variation where:

- The project will incur over-expenditure to the approved budget more than \$50,000 or 20% (whichever is greater).

#### **5.4 CARRYOVERS AND REVOTES**

In accordance with Clause 211 (3), approved expenditure and money voted by Council lapses at the end of the financial year unless one of the following applies in which case the funds shall be carried forward:

- a. work carried out or started, or contracted to be carried out, for the council, or*
- b. any service provided, or contracted to be provided, for the council, or*
- c. goods or materials provided, or contracted to be provided, for the council, or*
- d. facilities provided or started, or contracted to be provided, for the council,*

*Before the end of the year concerned, or to the payment of remuneration to members of the council's staff.*

Where the project does not meet one of the above items Council is required to revote the budget monies. In consideration of revotes the following applies:

- Annually at the March QBR specific individual projects that have not commenced (operating and capital) and it is unlikely to be completed in the reporting year the budget is removed and included (if appropriate) in the future financial year's budget at the time of its adoption.
- Requests must be for existing and not new projects.
- Reasons for why the project has not been completed in the current financial year and an estimated timeframe for the project completion must be provided.
- Individual requests must be greater than \$4,000 unless grant funded or the direct result of a Council decision.
- Budgets for routine operational expenditure will not be carried forward to the next financial year.
- Budgets carried over or revoted in a previous year will not be brought forward for a second year.

Annually a revote and carry forward report will be prepared and reported to Council no later than 2 months after the financial year.

## 6. DEFINITIONS

- **Annual budget:** Council's statement of intended expenses, revenue and capital expenditure that give rise to its operational plan for the reporting period and the cash inflows and outflows associated with intended operating, investing and financing activities with a projected financial position at the end of the reporting period.
- **Annual report:** reports the progress of activities and achievements to the community against the against the Delivery program.
- **Asset management plan:** provides a clear direction for asset management and defines key principles that underpin asset management for the council.
- **Carryover:** The bringing forward of expenditure into the next reporting period for projects commenced and in progress at the end of the reporting period.
- **Code:** The *Local Government of Accounting Practice and Financial Reporting* published by the Department, as in force from time to time.
- **Community strategic plan:** The Community Strategy Plan describes the community's vision and aspirations for a period of ten or more years.
- **Council:** the council of an area and includes the administrator
- **Debt:** arising from a loan of money or arising from the supply of goods or services
- **Delivery program:** is a four-year plan that turns the strategic goals found in the Community Strategic Plan into actions. It is the point where a council makes a commitment to the Community Strategic Plan, and act upon those issues that are within its area of responsibility
- **Financial indicators:** The financial measures or ratios used in the operational plan, annual reports and other internal and external reports to guide or assess the financial performance and position of Council.

- **Financial risk:** the possibility of losing money in a business venture or investment. Risk types include credit risk, liquidity risk, and operational risk.
- **Financial sustainability:** occurs when expenditure, revenue raising and service level decisions are made such that planned long term service and infrastructure levels and standards can be achieved without unplanned increases in rates or disruptive cuts to services.
- **Grant:** sum of money given by a government or other organisation for a particular purpose.
- **Independent Pricing and Remuneration Tribunal (IPART):** an independent authority established under the Independent Pricing and Regulatory Tribunal Act 1992.
- **Long term financial planning:** prepared for a minimum of ten years and updated annually as part of the development of the Operational Plan. It is a decision-making tool that enables council to model different financial scenarios when they are making significant financial decisions.
- **Operational plan:** annual document outlining the actions Council will undertake for the financial year in accordance with the adopted budget.
- **Original budget:** the budget adopted by Council by 30 June annually for the upcoming financial year. Presentation is based on the Primary statements and Local Government Code of Accounting Practice and Financial Reporting.
- **Quarter:** the period of 3 months ending on 30 September, 31 December, 31 March or 30 June.
- **Responsible accounting officer:** a member of the staff of the council designated by the general manager, or if no such member has been designated, the general manager
- **Revised budget:** the adopted original budget plus any approved amendments.
- **Revote:** request for Council to approve by a new vote expenditure.
- **Workforce management plan:** prepared for a minimum of four years that addresses the human resourcing requirements for council to implement the Delivery Program. This will align long-term council strategies with the human resources required to deliver these strategies.

## 7. ROLES AND RESPONSIBILITIES

### 7.1 STAFF

- Responsible for complying with Council policies, procedures and delegations.

### 7.2 DEPUTY GENERAL MANAGER / MANAGER

- Responsible for assisting with the development of the annual budget, monitoring actual expenditure against budget and requesting adjustments as required during the reporting period.

### **7.3 GENERAL MANAGER**

- Overall responsibility for presenting a budget that enables the objectives and strategies of the Delivery Plan and based on the agreed service levels established by Council

### **7.4 COUNCIL**

- Responsible for setting service levels and adopting an annual budget that is financially responsible and aligns with the Delivery Plan.

## **8. RELATED LEGISLATION**

- Local Government Act, 1993
- Local Government (General) Regulations, 2021
- Local Government Code of Accounting Practice

## **9. RELATED POLICIES AND DOCUMENTS**

- Asset management Policy TS20
- Borrowing and Loans Policy 2022 POL011
- Community Engagement Policy ES310
- Delegations Policy ES290
- Fraud and Corruption Prevention Policy 2021 POL007
- Integrated Planning and Reporting Framework – Frequently Asked Questions
- Legislative Compliance Policy 2021 POL022
- Project Management Policy TS310
- Quarterly Budget Review Statement for NSW Local Government
- Statement of Business Ethics Policy 2022 POL061

## **10. VARIATION**

Council reserves the right to review, vary or revoke this policy in accordance with legislation, regulation and award changes, where applicable. Council may also make changes to this policy and the relevant procedures from time-to-time to improve the effectiveness of its operation.

## **11. PREVIOUS VERSIONS**

Reference to a superseded policy number and/or name is also considered a reference to the new policy number. This policy was previously named:

- Not applicable.

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**POLICY HISTORY**

<b>Responsible Officer</b>	<b>Finance Manager</b>		
<b>Approved by</b>	<b>General Manager</b>		
<b>Approval Date</b>	<b>2 May 2023</b>		
<b>GM Signature</b> <i>(Authorised staff to insert signature)</i>			
<b>Next Review</b>	<b>24 February 2025</b>		
<b>Version Number</b>	<b>Endorsed by ELT</b>	<b>Endorsed by Council</b>	<b>Date signed by GM</b>
<b>1 Adopted</b>	24/01/2023	21/03/2023	2/05/2023
<b>2 Reviewed</b>	DD/MM/YYYY	DD/MM/YYYY	DD/MM/YYYY

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## 12. Acknowledgement of Training Received

I hereby acknowledge that I have received, read and understood a copy of Council's Budget Development and Management Policy.	
Employee Name	
Position Title	
Signature	
Date	