

# Budget Preparation Policy



**CAMPBELLTOWN  
CITY COUNCIL**

Policy Reference Number	31CP
Responsible Department	Corporate & Community Services
Related Policies	Internal Control
Related Procedures	Nil
Date of Initial Adoption	5 May 2009
Last Reviewed by Council	15 March 2011

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"(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 r... [1]"

## 1. Purpose

The purpose of this Policy is to document the preferred process with regard to the preparation of the annual budget, and to provide guidance to Council and Staff on their respective roles in the process.

## 2. Introduction

A budget expresses the Annual Business 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 Annual Business Plan.

Under section 123 (1) of the Local Government Act 1999 the following is required:

*"A council must have for each financial year-*

- (a) an annual business plan; and*
- (b) a budget."*

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

Pursuant to section 123(10)(b) of the Act, each budget of a Council under the Act 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, net financial liabilities ratio and asset sustainability ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

3. Power to Make the Policy

Council is empowered to make this Policy pursuant to Section 123 of the Local Government Act 1999 and Section 7 of the Local Government (Financial Management) Regulations 2011.

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4. Strategic Plan Link

This Policy has the following link to Council's Strategic Plan 2010-2020:

Goal 2 – Leadership

A Council providing strong leadership and excellent service delivery.

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5. 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 key financial targets,
- Consistency with Council's strategic direction, LTFP (Long Term Financial Plan) and Annual Business Plan,
- Accountability and transparency in the decision making process; and
- Providing value for money for the services provided.

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6. Definitions

**Recurrent:** Income and expenses that are used to fund Council's day to day operations. Examples include but are not limited to rates, user charges, grants and subsidies, statutory charges, utility and maintenance costs, interest (paid and received), and depreciation.

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**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:** Where an asset's service life is extended, but its service capability is not improved.

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**Capital New:** Where an asset is added to Council's existing complement or where an existing asset is expanded to provide additional capabilities or services.

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7. Policy

To ensure the principles of this policy are met, the following guidelines should be followed during the budget process.

### LTFP (Long Term Financial Plan)

The relevant year of Council's adopted LTFP will be used as the foundation for budget preparations for the upcoming financial year.

Any reference to CPI (Consumer Price Index) [and LGPI \(Local Government Price Index\)](#) will be based on the figure applied to relevant year of the LTFP, and where possible, takes into consideration the latest quarterly CPI [and LGPI](#) figures.

### 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.

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

### Budgeting for New Projects

To assist in the calculation of Council's financial indicator targets, projects are classified into three categories, being:

- New Initiatives (Operating)
- Capital-Renewal & Replacement
- Capital-New

To ensure Council's financial indicator targets are met, the LTFP will be used to guide the level of funding available for each category of [net](#) expenditure.

[All projects submitted must have a New Project Budget Request form completed and approved by a General Manager prior to being considered by the EMT \(Executive Management Team\).](#)

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### New Initiatives (Operating)

This [net](#) expenditure affects Council's Statement of Comprehensive Income, as they comprise operating income and expenses.

The level of expenditure available for New Initiative projects will be based on:

The target operating surplus/(deficit) for the relevant year of the LTFP *less* Net Recurrent Expenditure (or [Income](#)).

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New Initiatives from previous years that are subsequently classified as Recurrent will have an adverse impact of the level of expenditure available for New Initiatives in future budgets.

### Ranking of New Initiative projects

Elected Members will rank New Initiative projects, taking into consideration [the](#) comments [of Staff](#) and the rationales presented.

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The system used to rank these projects is as follows:

- Elected Members will be provided with a listing and an explanation of the New Initiative projects for consideration. The listing will display and sort each project by [the](#) Strategic Plan link.
- Elected Members will be requested to rank projects in order of priority. The higher the score, the more likely the project will be short-listed. Each project ranked must receive a unique score. [However, if an Elected Member believes a proposed project should not proceed, they may allocate it a ranking of 0 \(zero\).](#)
- All scores will be compiled and sorted from highest to lowest; projects with the highest priority will be short-listed, based on [a combination of](#) the funds available [and a 50% ranking](#).
- Elected Members will have the opportunity to make adjustments to the short-listed projects at a Council meeting before adopting the New Initiatives [that will](#) be included in the Annual Business Plan and Budget for community consultation, [and subsequent adoption](#).

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### Capital-Renewal & Replacement

The level of expenditure allocated for renewal and replacement projects will be based on the LTFP, which [in turn](#) relies on the information contained within Council's IAMP (Infrastructure and Asset Management Plans).

It is unlikely that the level of depreciation, and therefore rates raised will match the required renewal and replacement expenditure in a budget year. The timing and level of renewal and replacement expenditure will be dictated by the IAMPs, while rates will be raised in a consistent manner to avoid large fluctuations in the annual rate increase.

Where renewal and replacement [net](#) expenditure is less than budgeted depreciation expense, the difference shall be allocated to the Renewal and Replacement Reserve.

Where renewal and replacement [net](#) expenditure is greater than the budgeted depreciation expense, the shortfall [will](#) be [transferred from](#) the Renewal and Replacement Reserve.

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### Capital-New

Where additional Capital-New projects require funding in the budget process, a cost-benefit analysis must be undertaken to justify its inclusion. Borrowings may be required to fund these additional [Capital-New](#) projects, and such decisions will take the key financial targets into consideration.

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Ranking of Capital-New projects

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Elected Members will rank Capital-New projects, taking into consideration the comments of Staff and the rationales presented.

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The system used to rank these projects is as follows:

- Elected Members will be provided with a listing and explanation (including the cost-benefit analysis) of Capital-New projects for consideration. The listing will display and sort each project by the Strategic Plan link.
- Elected Members will be requested to rank projects in order of priority. The higher the score the more likely the project will be short-listed. Each project ranked must receive a unique score. However, if an Elected Member believes a proposed project should not proceed, they may allocate it a ranking of 0 (zero).
- All scores will be compiled and sorted from highest to lowest; projects with the highest priority will be short-listed, based on a combination of the funds available and a 50% ranking.
- Elected Members will have the opportunity to make adjustments to the short-listed projects before adopting the Capital-New items that will be included in the Annual Business Plan and Budget for community consultation, and subsequent adoption.

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**8. Review & Evaluation**

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.

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**9. Availability of the Policy**

This Policy will be available for inspection at Council's principal office during ordinary business hours and at Council's website www.campbelltown.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

*“(a) include a budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows, presented 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.”*