

# Budget Preparation Policy

<b>Policy Reference Number</b>	5615539
<b>Responsible Department</b>	Corporate Services
<b>Related Policies</b>	Internal Control, Treasury Management Policy, Budget Review Policy, Depreciation Policy, Rating Policy
<b>Related Procedures</b>	Nil
<b>Date of Initial Adoption</b>	5 May 2009
<b>Last Reviewed by Council</b>	15 August 2023

## 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 Employees 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 and Budget.

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.”*

Regulation 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 the asset renewal funding ratio under the Local Government (Financial Management) Variation Regulations 2017*

*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 Regulation 7 of the Local Government (Financial Management) Regulations 2011.

### 4. Strategic Plan Link

This Policy has the following link to Council's Strategic Plan 2024:

- Planning for our Future (Goal 4)

### 5. Principles

A number of factors are to be taken into consideration when preparing the annual budget, including:

- Commitment to financial sustainability by taking into consideration Council's adopted key financial targets
- Consistency with Council's strategic direction, LTFP (Long Term Financial Plan) and Annual Business Plan and Budget
- Accountability and transparency in the decision making process
- Providing value for money for the services provided.

### 6. Definitions

<b>Capital-New:</b>	Where an asset is added to Council's existing complement or where an existing asset is expanded to provide additional capabilities or services.
<b>Capital-Renewal &amp; Replacement:</b>	Where an existing asset's service life is extended, but its service capability is not improved
<b>CPI:</b>	(Consumer Price Index) measures the changes in price of a basket of goods and services which account for a high proportion of expenditure by metropolitan households. This index is maintained by the ABS (Australian Bureau of Statistics).
<b>LGPI:</b>	(Local Government Price Index) represents the movement of prices associated with the goods and services consumed by Local Government in South Australia. This index is maintained by SACES (The South Australian Centre for Economic Studies).
<b>New Initiatives:</b>	Services that are provided for the first time that may have consequences on future recurrent budgets, or are short term in nature. No asset is created as a result of this project type.

**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.

## 7. Policy

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

### Key Financial Targets

Council has a set of key financial targets that it reviews and adopts at least annually 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.

### LTFP

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 and LGPI will be based on the figure applied to the relevant year of the LTFP, and where possible will take into consideration the latest available quarterly CPI and LGPI figures and forecasts.

### Budgeting for New Projects

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

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

To ensure Council's key financial targets are met, the LTFP will be used to guide the level of funding available for each category of net expenditure.

Elected Members and Employees are able to submit budget bids at any time of the year.

All projects submitted must have a Budget Bid completed, which is to be approved by a General Manager prior to being considered for inclusion by the EMT (Executive Management Team).

### New Initiatives (Operating)

New Initiative net expenditure affects Council's operating result, as it is comprised of operating income (where applicable) 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), less Capital-Renewal and Replacement Income.

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

Projects of this nature will require a report prepared for Council to consider prior to being included as part of the rating process.

## **CAPITAL**

### **Capital-Renewal & Replacement**

The level of expenditure allocated for renewal and replacement projects will be based on the LTFP and Council's key financial targets, which requires spending to occur in line with the amounts set out in Council's AMPs (Asset Management Plans) and asset replacement schedules over a rolling 5 year period. Projects of this nature will not be rated should the budget bid be submitted for consideration in the same year as its planned replacement date. This also means that a report does need to be prepared for Council's consideration.

Only projects that have been submitted for consideration prior to their planned replacement date will be subject to the rating process. Projects that meet this criteria will require a report prepared for Council to consider prior to being included as part of the rating process. Where these projects are selected to proceed, it will mean that additional funds will be required, when compared what has been included in the LTFP.

Where renewal and replacement net expenditure is less than what the AMPs and asset replacement schedules require, the difference shall be allocated to the Renewal and Replacement Reserve.

Where renewal and replacement net expenditure is greater than what the AMPs and asset replacement schedules require, the shortfall will be transferred from the Renewal and Replacement Reserve (subject to a balance being available).

### **Capital-New**

The level of expenditure available for Capital-New projects will be based on the assumption allocation contained in Council's adopted LTFP. Projects of this nature will require a report prepared for Council to consider prior to being included as part of the rating process. Borrowing may be required to fund Capital-New projects, and such decisions will take into account Council's key financial targets and Treasury Management Policy.

### **Capital Works requested by Community Organisations at Council Owned Facilities**

***Community Organisations not subject to lease/hire fees (or fees equivalent to peppercorn rent)*** - Asset renewals and upgrades requested by Community organisations at Council owned facilities (including but not limited to buildings, playing fields and courts) must have at least two-thirds of the total cost of the project funded by

the organisation. This funding may be provided through monetary contributions (upfront or lease arrangement), in-kind support, Government grants or a combination of these methods. Projects of this nature will require a report prepared for Council to consider prior to being included as part of the rating process.

**Community Organisations subject to lease/hire fees** - Asset renewals and upgrades requested by Community organisations at Council owned facilities (including but not limited to buildings, playing fields and courts) must have at least 50% of the total cost of the project funded by the organisation. This funding may be provided through monetary contributions (upfront or lease arrangement), in-kind support, Government grants or a combination of these methods. Projects of this nature will require a report prepared for Council to consider prior to being included as part of the rating process.

Borrowings may be required to fund Capital-New projects, and such decisions will take into account Council's key financial targets and Treasury Management Policy.

Should Council agree to an asset renewal or upgrade project proposed by a Community organisation, all associated works and costs will be managed by Council.

### **Rating of Projects**

Elected Members will rate eligible projects, taking into consideration the comments of Employees and the rationales presented. Each project type will be assessed separately.

The system used to rate these projects after they have been endorsed for consideration by EMT, is as follows:

- Each member of the Executive Management Team will apply a priority to each project to be rated, based on the following options:
  - High priority (3 points)
  - Medium priority (2 points)
  - Low priority (1 point)

No more than 25% of projects should be rated as high, no more than 50% of projects should be rated as medium and no more than 25% of projects should be rated as low.

The Executive Management Team's scores will be combined as a group and the average priority level will be applied to each project.

- Elected Members will be provided with a listing for each project and explanation of projects for consideration. Each listing will display and sort each project by the level of priority, as determined by the Executive Management Team.
- Elected Members will be requested to apply a level of priority to each project to be rated, using the same priority system applied to the Executive Management Team. No more than 25% of projects should be rated as high, no more than 50% of projects should be rated as medium and no more than 25% of projects should be rated as low. There is no limit to the number of projects that can be rated as no priority.
- All scores will be compiled and sorted from highest to lowest priority and presented to Council for consideration. Each short-list will be based on a combination of the

funds available for each project type and the projects that receive an average priority of 1.5 points or greater.

- Elected Members will have the opportunity to make adjustments to the short-listed projects before adopting the projects to be included in the draft Annual Business Plan and Budget for community consultation and after considering any feedback received prior to adopting the Annual Business Plan and Budget.

## **8. Review & Evaluation**

Within six months of each new Council term Council will review this policy. Following this initial review this policy will be reviewed annually by staff with minor administrative adjustments being approved by the Chief Executive Officer.

## **9. Availability of the Policy**

Copies of this Policy will be available at Council's principal office during ordinary business hours and at Council's website [www.campbelltown.sa.gov.au](http://www.campbelltown.sa.gov.au).