

## Council Policy

### 16.9 BUDGET DEVELOPMENT AND MANAGEMENT

#### PURPOSE

The purpose of this policy is to set out the framework for the development and approval of the annual budget at the Colac Otway Shire Council, and the circumstances in which Council would formally revise the budget.

The policy sets out principles to guide decision making, and will ensure that it is clear who is responsible for preparation and consideration of the annual budget and how performance against the adopted budget will be reported.

This policy document is supported by a number of operational and organisational documents which are designed to assist with the implementation of the policy.

This policy reflects Council's support of rate capping as it reduces the likelihood of excessive rate increases.

#### SCOPE

The Colac Otway 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.

Preparation of a Council Plan 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.

An annual budget then provides a financial plan to implement the Council Plan for the year ahead which can be monitored to ensure that Council implements the principles of sound financial management and operates within its financial capacity and remains financially healthy.

Development and adoption of an annual budget and a strategic resource plan is required under the current Local Government Act 1989 (the Act). Progress reporting on performance against the adopted budget is also required under the Act.

It must be noted that Part 4—Planning and financial management, of the Local Government Bill 2019 (the Bill) also sets out a number of 'Strategic planning principles' and the requirement for a 10 year Financial Plan, 10 year Asset Plan and a 4 year Budget, which will all be a critical part of Councils strategic planning process.

Notwithstanding the requirements of the Act and pending requirements of the Bill, it is critical that expected income and expenditure is assessed in order to understand the impact on Council's financial position and to enable effective management and monitoring of community funds.



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## DEFINITIONS

Act	Local Government Act 1989
Bill	Local Government Bill 2019
LGPRF	Local Government Performance Reporting Framework
LTFP	Long Term Financial Plan
SRP	Strategic Resource Plan

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## REFERENCES

Local Government Act 1989

Local Government Bill 2019

Local Government (Planning and Reporting) Regulations 2014

Local Government Performance Reporting Framework

Essential Services Commission – Fair Go Rates System – Applying for a higher cap (Guidance for Councils)

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## GUIDELINES/POLICY DETAILS

Colac Otway Shire Council is committed to:

- Sound budget management practices;
- Open and transparent communication with the community in the development, presentation and reporting of financial information, supported by its Community Engagement Policy; and
- Providing economically and socially sustainable services to the community.

Council will maintain a strategic approach to the delivery of services, capital works and projects to ensure that the budget enables the objectives and strategies of the adopted *Council Plan* (the Plan). Prior to beginning the annual budget preparation, management will discuss the major assumption and parameters to be included in the draft budget, with Council to ensure they are consistent with Council's strategic objectives.

Annual Budgets will be developed by management based on an adopted Long Term Financial Plan (LTFP), asset management plans and agreed service levels as set by Council and will be presented to Council for consideration and adoption. These plans are linked to the adopted Council Plan.

Council will implement its Community Engagement Policy and the following set of financial management principles, which will provide key strategic direction to inform Council's financial decisions.

These principles will guide Council in the development of its annual budget and long term financial plans.



## GENERAL FINANCIAL PRINCIPLES

### Sustainable and Strategic Budgeting Principle

- Council will implement a sustainable financial strategy that:
  - Includes a Long Term Financial Plan (LTFP);
  - Factors in community expectations;
  - Linked to the Council Plan; and
  - Commits to achieving an annual surplus to contribute to asset renewal and other capital projects.

### Cash Management Principle

- Council will manage cash to ensure sufficient levels to meet its requirements and will:
  - Maintain cash reserves according to Council's Reserve Policy.
  - Ensure cash on hand is no greater than what is required to meet Council's immediate working capital requirements, with any surplus funds being applied to either reduce debt or invest;
  - Invest prudently in accordance with its Investment Policy; and
  - Maintain sufficient cash to avoid overdraft interest.

### Borrowing Principle

All borrowings will be undertaken in accordance with Council Policy 16.8 – Borrowing. Council will take a conservative approach to borrowing funds and the following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework.

- Borrowings are only to be used to finance:
  - Capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and provide benefit across generations); or to
  - Meet Council's obligations in relation to future defined benefit superannuation calls, if required; and
  - Must be supported by a robust business case;
- Borrowings must be tied to a specifically identified project and not be drawn down until the commencement of the project;
- Council will not borrow to fund operating expenditure (other than large defined benefit superannuation calls);
- All borrowings will be considered as part of Council's long term financial planning using sound financial management principles (and fall within the borrowing ratios outlined in this policy); and
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.
- Per Council Policy, minimal debt levels will be maintained as follows:
  - Loans and Borrowings <20% of rate and charges revenue; and
  - Debt servicing cost <5% of total revenue (excluding capital revenue).



## REVENUE PRINCIPLES

### Rates and Charges Revenue Principle

- Council will:
  - Only consider making an application for a higher cap if the Council has authorised the Chief Executive Officer, by an explicit Council resolution in open Council, to prepare the case for applying for a higher cap.
  - Review rates annually following the announcement of the rate cap set by the Minister.
  - Consider making an application for a higher cap should there not be sufficient income to fund the:
    - Council Plan
    - Long Term Financial Plan
    - to meet current expenditure and asset renewal commitments.

An application will only be made after implementing the requirements of the Essential Services Commission guidance on applying for a higher cap. Namely, the six legislative matters of:

1. Proposed higher cap
2. Reasons
3. Engagement
4. Efficiency and value for money
5. Alternative funding and offsets
6. Long-term planning

- Differential rating should be applied as equitably as is practical and will comply with the *Ministerial Guidelines for Differential Rating*.
- Where it is possible to identify the direct benefit of a service, charges should reflect the cost of the service to help reduce rates subsidies.
- 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; and
  - Are cost neutral through appropriate fees and charges and rating strategies.

### User Fees Principle

- Council will set fees and charges having regard for:
  - Pricing principles (profit, break even, subsidy);
  - Marketplace competition;
  - Users capacity to pay;
  - Equity between services;
  - Community service benefit; and
  - Benchmarking of similar services.
  - Increase fees based on cost increases;
  - Pricing to encourage behaviour changes; and
  - Advocacy for statutory fees not governed by Council to be increased appropriately.
- Costs will include:
  - Overheads; and
  - Identification of service subsidy.



### **Grant Revenue Principle**

- 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; and
- Where Council chooses to subsidise a funded service the contribution should not outweigh the community benefit.

### **ASSET MANAGEMENT PRINCIPLES**

Council will acquire and dispose of assets in the best interests of the community.

#### **Asset Rationalisation Principle**

- When disposals occur Council will ensure that:
  - There is clear Council or community need or benefit;
  - Thorough community consultation and financial assessment is undertaken; and
  - sales of property will not be used to fund operational expenditure.
- Council will ensure that regular review of asset rationalisation is conducted.

#### **Asset Renewal Principle**

- 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; and
  - Ensuring appropriate expenditure is provided for compliance and safety regulations.

#### **New Asset Principle**

- 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; and
  - Undertake financial analysis with regard to resultant additional operational maintenance and renewal costs.



## **SERVICE DELIVERY PRINCIPLES**

### **Expenditure Review Principle**

- Council will review levels of expenditure.
- Ongoing service reviews will assess service in accordance with:
  - Demonstrated community need;
  - 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;
  - Availability of Victorian or Australian Government funding; and
  - Other budget priorities.

In addition to these principles, Council will consider private/public partnerships, shared services and collaborative projects where appropriate.

### ***Monitoring and reporting***

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

Management is responsible for monitoring budgets on an ongoing basis. An annual carry forward report and comprehensive quarterly financial reports reviewing progress and performance compared to the adopted budget, including forecasted adjustments, will be reported to Council in line with the requirements of the Act or Bill.

Variations to the adopted budget that are unplanned and unavoidable will be reported to Council through the financial reports. Where a change of project scope results in a material financial implication Council will be briefed prior to the variation being reported.

### ***Revised Budget***

Under the Act Council must revise their budget if there are material circumstances affecting their financial operations and position.

Colac Otway Shire Council will formally revise their budget if:

- there is a requirement to borrow more than estimated in the original budget; or
- there is a material difference (>10%) to rates and charges revenue to be raised.



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#### RELATED DOCUMENTS

Council Policy 16.3 - Investments

Council Policy 16.8 - Borrowing

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#### FILE MANAGEMENT

Policy owner	Manager Financial Services	Division	Corporate Services
Adopted by council	29 January 2019	Policy Number	16.9
File Number	11/96037	Review date	29 January 2023