



**Table of Contents**

- 1. Preamble..... 3**
- 2. Purpose..... 3**
- 3. Scope ..... 3**
- 4. Definitions ..... 3**
- 5. Policy Statement..... 3**

## Council Policy – Annual Budget

### 1. Preamble

- 1.1 The City of West Torrens (CWT) is committed to sound budget management practices and transparency in the development and presentation of financial information to the community.

### 2. Purpose

- 2.1 This policy provides direction on Council budgeting, including key principles underpinning budget development, consistent with the requirements of section 123 of the *Local Government Act 1999* and part 2 of the *Local Government (Financial Management) Regulations 2011*.

### 3. Scope

- 3.1 This policy provides direction on Council budgeting, including key principles underpinning budget development.

### 4. Definitions

#### 4.1 Asset Renewal Funding Ratio

The asset sustainability ratio is calculated by dividing net asset renewal expenditure by the infrastructure and asset management plan required expenditure.

#### 4.2 Net Asset Renewals Expenditure

Net asset renewals expenditure refers to capital expenditure on the renewal and replacement of existing assets, and excludes new capital expenditure on the acquisition of new assets.

#### 4.3 Operating Surplus

Operating surplus refers to the amount by which operating income exceeds operating expenses, before capital items, the net gain or loss on the disposal or revaluation of assets, and physical resources received free of charge.

#### 4.4 Operating Surplus Ratio

Operating surplus ratio refers to the operating surplus as a percentage of total operating revenue.

#### 4.5 Net Financial Liabilities Ratio

Net financial liabilities ratio refers to total liabilities less financial assets expressed as a percentage of total operating revenue.

### 5. Policy Statement

- 5.1 Each financial year, pursuant to the requirements of section 123(1) of the *Local Government Act 1999*, Council will adopt:

5.1.1 An annual business plan; and

- 5.1.2 A budget.
- 5.2 The CWT will prepare an annual business plan, as part of the budget process, which will:
  - 5.2.1 Address objectives, activities and performance measures of the Council;
  - 5.2.2 Assess financial requirements;
  - 5.2.3 Address rating structures and policies; and
  - 5.2.4 Take into account the long term financial management plan, including significant infrastructure management issues.
- 5.3 The budget must be considered in conjunction with Council's annual business plan and be adopted after 31 May and before 31 August.
- 5.4 The budget will comply with requirements of the *Local Government Act 1999*, along with related regulations, and comprise:
  - 5.4.1 A budgeted balance sheet;
  - 5.4.2 A budgeted statement of comprehensive income;
  - 5.4.3 A budgeted statement of changes in equity;
  - 5.4.4 A budgeted cash flow statement;
  - 5.4.5 A summary of operating and capital investment activities; and
  - 5.4.6 Estimates of the operating surplus ratio, asset renewal funding ratio and net financial liabilities ratio.
- 5.5 The form of the budget and annual business plan will be determined each year by the Council, pursuant to the requirements of section 123 of the *Local Government Act 1999*.
- 5.6 Council will aim for the following in the development of its annual budget and business plan:
  - 5.6.1 An operating surplus ratio of up to 15 per cent, based on LGA Information Paper 9 *Financial Indicators* (February 2012) which suggests an operating surplus ratio of between zero and 15 per cent over any five year period;
  - 5.6.2 An asset renewal funding ratio between 100 and 110 per cent, based on LGA Information Paper 9 which suggests a ratio greater than 90 per cent but less than 110 per cent over a rolling three year period;
  - 5.6.3 A loan servicing capacity, based on loan repayments as a percentage of rate revenue, of less than 25 per cent;
  - 5.6.4 A favourable cash flow position at the end of each financial year, including a positive projected year end cash flow net of cash reserves.
- 5.7 Council will meet its capital expenditure requirements without otherwise funding depreciation or establishing a sinking fund to cover future requirements.
- 5.8 The following budget principles will underpin the budget development:

#### 5.8.1 Honest and Accountable

Council 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. Comprehensive information will be available each year in hard copy form and on Council's web-site, including full copies of both the budget and annual business plan.

#### 5.8.2 Strategic Approach

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.

#### 5.8.3 Realistic Budgeting

All budget figures will be realistic, based on the best available information, being oriented toward a zero based budgeting approach, rather than being incrementally based.

#### 5.8.4 Affordable Rates

Rates will be set at an affordable level having regard to the City's strategic directions and its social and economic objectives balanced against the community's ability to pay. Rate increases will be set within the 10 year framework of the long term financial management plan, but this will be re-assessed on an annual basis.

#### 5.8.5 Avoid Cost Shifting

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

#### 5.8.6 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.

#### 5.8.7 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:

5.8.7.1 In the context of the strategic objectives of Council;

5.8.7.2 In the context of long term financial forecasts and objectives;

5.8.7.3 As funding for long term infrastructure asset creation;

5.8.7.4 As a means of spreading the cost of infrastructure over the ratepayers who use it; and

5.8.7.5 As a mechanism to fund temporary cash shortfalls.

#### 5.8.8 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 and that all risks to Council's finances are properly managed.

#### 5.8.9 Financial Sustainability

Council is committed to being financially sustainable over the long term.

#### 5.8.10 Budget Review

The budget performance of the Council will be reviewed each financial year on three occasions in conjunction with statutory budget reviews and in addition as at 30th June.

Comprehensive budget review information, including a revised income statement, will be presented to the Council by the General Manager Corporate and Regulatory Services.

#### 5.8.11 Responsibility

Overall responsibility for budget and budget review documentation rests with the Chief Executive Officer and General Managers. However, managers of the CWT will compile budget and budget review information for their respective areas of responsibility, with the work co-ordinated by the Manager Financial Services.

5.9 Community consultation will occur annually on Council's budget and annual business plan (refer to the *Council Policy - Public Consultation*).