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Council Policy: Annual Budget

1. Preamble

- 1.1 The City of West Torrens (Council) 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's budgeting, including key principles underpinning budget development, that is consistent with the requirements of section 123 of the *Local Government Act 1999* (Act) and part 2 of the *Local Government (Financial Management) Regulations 2011* (Regulations).

3. Scope

- 3.1 This policy applies to Council's annual budgeting activities as required under the Act.

4. Definitions

- 4.1 **Asset renewal funding ratio** indicates the extent to which non-financial assets are being renewed and replaced compared with the asset renewal and replacement expenditure identified as necessary in Council's Infrastructure and Asset Management Plan.
- 4.2 **Net asset renewal expenditure** refers to capital spent on renewing and replacing assets. Excludes capital spent on acquiring new assets.
- 4.3 **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 are taken to account.
- 4.4 **Operating surplus ratio** refers to the operating surplus as a percentage of total operating revenue.
- 4.5 **Net financial liabilities ratio** refers to total liabilities less financial assets expressed as a percentage of total operating revenue.
- 4.6 **Zero-based budgeting** refers to a budget being built from the ground up each year with consideration to financial requirements rather than historic basis.
- 4.7 **Incremental budgeting** is a method of creating a budget based on the previous period's budget with some adjustment for inflation, growth or other factors.

5. Policy Statement

- 5.1 Each financial year, pursuant to the requirements of section 123(1) of the Act, Council will adopt:
- 5.1.1 an annual business plan; and
- 5.1.2 a budget.

- 5.2 Council's annual business plan, prepared as part of the budget process, will:
- 5.2.1 address Council's objectives, activities and performance measures;
 - 5.2.2 assess Council's financial requirements;
 - 5.2.3 address Council's rating structures and policies; and
 - 5.2.4 take into account Council's long-term financial management plan, including significant infrastructure management issues.
- 5.3 The budget must be consistent with Council's annual business plan and be adopted after 31 May and before 15 August.
- 5.4 The budget will comply with requirements of the Act and regulations, and comprise:
- 5.4.1 a statement of financial position;
 - 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 Council will determine the form of the budget and annual business plan each year pursuant to the requirements of section 123 of the Act.
- 5.6 Council will aim for the following in its annual budget and business plan:
- 5.6.1 an operating surplus ratio of between zero and 10 per cent over any rolling three- or five-year period;
 - 5.6.2 an asset renewal funding ratio of between 90 and 110 per cent over a rolling three- or five-year period;
 - 5.6.3 a loan servicing capacity of less than 25 per cent, based on loan repayments as a percentage of rate revenue; and
 - 5.6.4 a favourable cash flow position at the end of each financial year, including a positive projected year-end net of cash reserves.
- 5.7 The following principles will underpin the budget development:
- 5.7.1 Honesty and accountability
- 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 via Council's website and social media platforms, including full copies of the budget and the annual business plan.

5.7.2 Strategic approach

Council will maintain a strategic approach to the delivery of all its services and capital works programs. The budget will respond to Council's strategic agenda and provide a foundation for the ensuing 10 years.

5.7.3 Asset consumption

The budget and resulting long term financial plan will be prepared to align with the Infrastructure Asset Management Plan over a 10-year period.

5.7.4 Realistic budgeting

All budget figures will be realistic, based on the best available information, and will be arrived at using a zero-based rather than an incremental budgeting approach.

5.7.5 Affordable rates

Rates will be set at an affordable level having regard to Council'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 annually.

5.7.6 Avoidance of cost-shifting

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

5.7.7 New initiatives

All new initiatives (such as proposed services, assets or programs) will be evaluated in terms of meeting Council's strategic directions and taking into account Council's financial performance including ratios.

5.7.8 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 strategically to achieve the provision of services to the community. Debt will be considered:

5.7.8.1 in the context of Council's strategic objectives;

5.7.8.2 in the context of long-term financial forecasts and objectives;

5.7.8.3 as funding for long-term infrastructure asset creation;

5.7.8.4 as a means of distributing the costs of infrastructure among the ratepayers who use it (to achieve inter-generational equity); and

5.7.8.5 as a mechanism to fund temporary cash shortfalls.

5.7.9 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 its finances are properly managed.

5.7.10 Financial sustainability

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

5.7.11 Budget review

Council will review its budget performance each financial year on three occasions as well as at 30 June.

The Administration will present comprehensive budget review information to the elected Council in accordance with the regulations.

5.7.12 Responsibility

Overall responsibility for budget and budget review documentation rests with Council's Executive team. However, Council managers will compile budget and budget review information for their respective areas of responsibility, with the work co-ordinated by the Manager Financial Services.

5.8 Council will consult the community annually on its budget and annual business plan as per requirements of the Act.