



MITCHAM

# **BUDGET MANAGEMENT FRAMEWORK**

*Adopted by Council 9 June 2015*

**public policy**

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## 1. PURPOSE

The purpose of this framework is to provide guidance, clarity and consistency around the roles and responsibilities of Council, Administration and staff with respect to budget management and reporting. This framework is part of Council's financial sustainability framework and aims to ensure that Council maximises accountability for delivery and management of budgeted outcomes as well as the efficiency with which Council operates and manages its resources to deliver those budgeted outcomes.

## 2. SCOPE

This Budget Management Framework applies to all Council budgetary decisions and should be adhered to by all budget holders.

## 3. DEFINITIONS

### **Capital Expenditure**

Expenditure or income that relates to the creation, renewal or upgrade of an asset. These expenses also have an associated ongoing operating cost in the form of depreciation, interest expense and maintenance.

### **Cost Pressure**

Costs that are likely to increase by more than the cost index or new costs for existing services which could be a result of changes in legislation, changes in local economy, etc.

### **Growth Pressure**

Increase in costs due to increase in the number of dwellings.

### **New / Enhanced Ongoing Service**

Any new service that is currently not provided by Council or an increase to the level of service currently provided (with a budgetary impact).

### **Operating Project**

A project that delivers a service or program for a specific purpose and over a short period of time (maximum of two years).

### **Recurrent Operating Service**

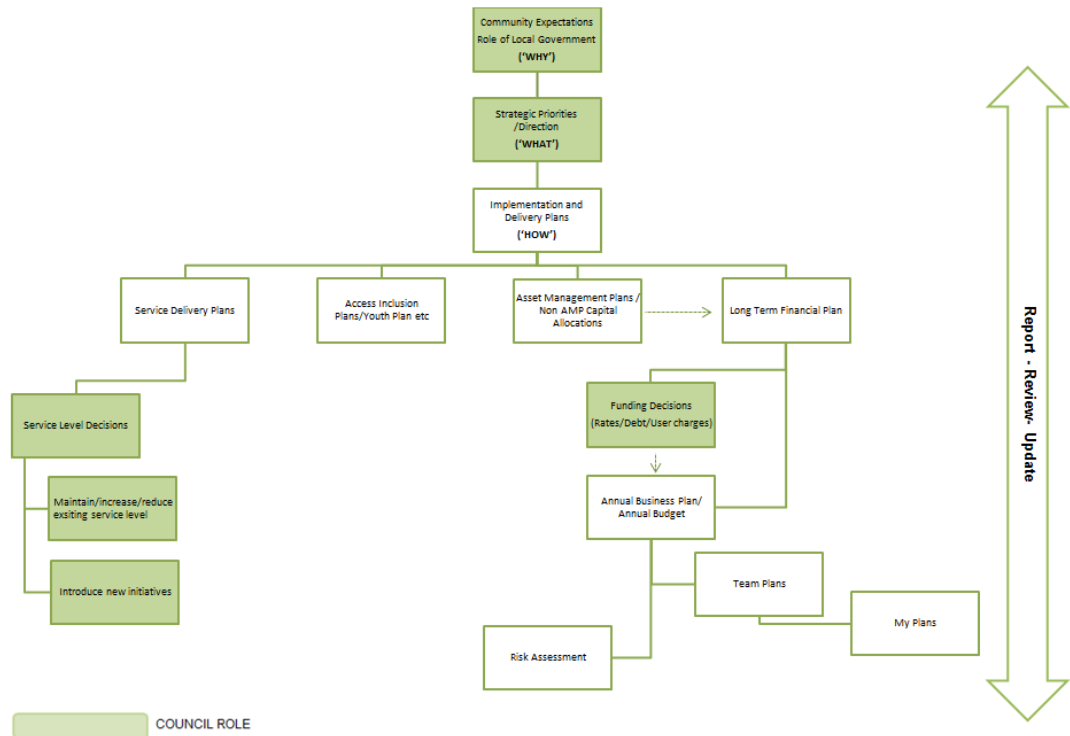
A recurrent operating service is a service that is provided by Council each and every year either by choice or due to a legislative requirement.

## 4. POLICY STATEMENT

Council's Strategic Management Plan identifies the community's vision and long term aspirations for the period 2013 / 2023. In order to achieve the objectives set out in the Strategic Plan, Council is required to develop an Annual Business Plan and Budget. While the Strategic Plan sets the direction, the Annual Business Plan and Budget articulates how Council will help the community achieve its long term vision. This Budget Management Framework ensures that the budgeted outcomes outlined in Council's Annual Business Plan are delivered in a way that is efficient and effective.

## 4.1. Strategic Framework

The City of Mitcham is committed to an integrated approach to strategic planning, which is articulated through its Strategic Planning Framework. The Strategic Management Plan informs the Long Term Financial Plan and in turn informs the Annual Business Plan and Budget, as illustrated in the diagram below.



The Annual Business Plan and Budget includes detailed information on the actions to be delivered in accordance with the goals set out in the Strategic Management Plan and is divided into the following sections:

- **Initiatives** - New services and projects specifically funded by the annual budget.
- **Community Asset Improvements** - New, improved or replaced community assets
- **Service Profiles** - Ongoing community services
- **Key Performance Indicators** - How achievement will be measured
- **Annual Budget** - Detailed financial statements and spreadsheets that make up the annual budget and rating statement

## 4.2. Annual Budget

The annual 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.

The *Local Government Act 1999 (as amended)* stipulates that a Council must have, for each financial year an annual business plan and budget. In addition, it also requires that the budget be reviewed at least thrice a year. As such, the budget lifecycle can be described as being two-fold (refer Appendix A).

The first aspect of the budgeting process is **establishing the budget** for the ensuing financial year, taking into consideration the following factors:

- Strategic direction;
- Service levels;
- Community needs and expectations;
- Cost shifting; and
- Current economic climate.

The 'budget establishment phase' for the subsequent year starts around October and includes a number of workshops with Elected Members to determine the strategic priorities of Council for the next financial year.

Some of the keys items to be considered in this phase are:

- Identification of cost and/or growth pressures;
- Determination of operating projects to be undertaken;
- Review of existing service levels and if any new services are to be introduced;
- Determination of the capital works program to be delivered; and

Based on the discussions and decisions relating to the above factors, the 10 year Long Term Financial Plan is prepared. The annual budget is essentially year 1 of the Long Term Financial Year.

Once Council is content that the Long Term Financial Plan (and Budget) accurately reflects the strategic direction, consultation occurs with the community. The Long Term Financial Plan (and Budget) is then amended as required and subsequently adopted by Council.

The second aspect of the budgeting process is **monitoring the budget**. This includes reviewing the budget against actuals at regular intervals and making adjustments to align the budget to the actuals or what the budget is expected to be at the end of the year. A budget review provides an opportunity to amend the previously adopted (or amended) budget. Changes to a budget may be required as further information is received during the year. Reasons for these changes may include:

- Changes in the level of services;
- Additional funding received or needed to carry out projects and/or services;
- Projects or services delayed;
- Ad hoc budget adjustments; and
- Amendments to regulations / legislation that affect Council's financial position.

#### **4.3. Roles and responsibilities**

In order to ensure maximum accountability and efficiency the following roles and responsibilities are utilised with regard to managing and reporting the budget during the year.

##### **Council**

Council is responsible for establishing the overall budget at the commencement of each financial year which outlines:

- The total resources to be raised and the services to be delivered.
- The operating projects to be delivered.
- The capital works (renewal and new) to be undertaken.

Council also undertakes periodic budget revisions (a minimum of three) during the year where it re-assesses priorities and considers issues that have arisen since the establishment of the budget. Council may make changes to services, projects and capital works contained within the budget as part of these periodic budget reviews.

##### **Chief Executive Officer (CEO)**

Under Section 36(1)(c) of the *Local Government Act 1999* (as amended), the Council '*has the power to do anything necessary, expedient or incidental to performing or discharging its functions or duties or to achieving its objectives*'. This Power has been delegated by the Council to the Chief Executive Officer.

This Budget Management Framework outlines that based on the delegation above, the CEO has the authority to manage the budget and make budget decisions. To enable the CEO to achieve this, in a way that is both accountable and efficient, there needs to be a degree of flexibility whilst still delivering the budget outcomes as had been set by Council. In order to facilitate this efficiency and accountability, the CEO can manage the budget as long as the following '**Budget Management Parameters**' are complied with:

- The budgeted operating result is maintained or improved;
- Budgeted borrowings are not exceeded;
- Services levels are maintained and no new / enhanced services (with a budgetary impact) are introduced;
- Operating projects are delivered within the total budget allocated by Council;

- Capital projects are delivered within the total budget allocated by Council;
- Capital and operating budgets are not interchanged;
- Labour, non-labour and depreciation expenses are not interchanged; and
- Savings targets (if any) are met.

If the Chief Executive Officer is not able to manage a budgetary issue without breaching one of the above criteria then that issue is referred to Council as part of the next periodic budget review before any action is taken.

If the Chief Executive Officer is to manage a budgetary issue without breaching one of the above criteria then the Chief Executive Officer (through Administration) will action that issue. This action will still be reported to Council as part of the next periodic budget review for formal endorsement as part of the revised budget.

Essentially this means that Administration is able to 'manage' the business and deal with ups and downs within the budget to ensure efficient and effective delivery of budgeted outcomes. However, only Council has the power to alter or change budgeted outcomes as part of the original budget or a periodic budget review.

#### **4.4. Reporting**

As part of the accountability that Administration has to deliver the budgeted outcomes efficiently and effectively, regular budget performance is reported to Council. This includes an update during budget reviews from Administration to Council and includes the following:

- A report showing a revised forecast of its operating and capital investment activities for the relevant financial year compared with the estimates for those activities set out in the original / revised budget presented in a manner consistent with the Model Financial Statements.
- A detailed analysis of all operating projects including variance explanations against the original/ revised budget and a forecast for the end of financial year.
- A detailed analysis of all capital projects including variance explanations against the original / revised budget and a forecast for the end of financial year.
- An update on Council's key financial indicators against original / revised budget indicators in order to be able to assess and monitor Council's financial sustainability and the impact of budgetary decisions

### **5. POLICY REVIEW**

Council is committed to ensuring this framework remains current and effective. This Framework will be reviewed after every general election or in response to an event or change in circumstances as deemed necessary by the Council or Administration.

## 6. VERSION HISTORY

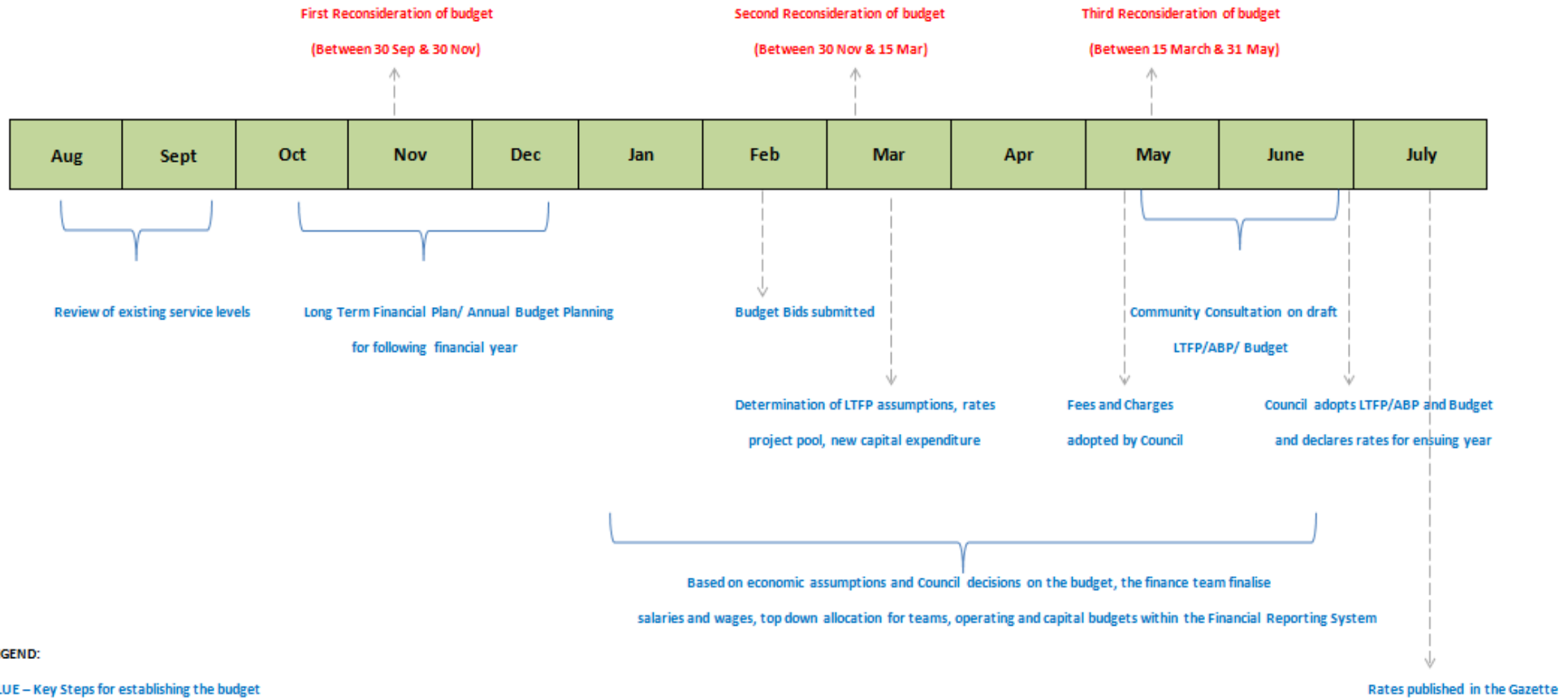
| VERSION | AUTHOR(S) POSITION | CHANGES | DATE     |
|---------|--------------------|---------|----------|
| V1.0    | Finance            |         | May 2015 |
|         |                    |         |          |
|         |                    |         |          |

## 7. DOCUMENT CONTROL

|                                        |                                             |                     |              |
|----------------------------------------|---------------------------------------------|---------------------|--------------|
| Responsible Department                 | Corporate Services and Innovation (Finance) |                     |              |
| Delegations Apply                      | YES                                         |                     |              |
| Classification                         |                                             |                     |              |
| Applicable legislation                 | Local Government Act 1999                   |                     |              |
| Related Policies & Corporate Documents |                                             |                     |              |
| Additional references                  |                                             |                     |              |
| Endorsed by Council:                   |                                             | Item No:            |              |
| Effective Date:                        |                                             | Next Review Date:   |              |
| TRIM Record Number:                    |                                             | TRIM Folder No:     | FF/2011/1798 |
| Template Folder No:                    | FF/2012/245                                 | Template Record No: | 12.60143[v4] |



## APPENDIX A – BUDGET LIFECYCLE



## LEGEND:

BLUE – Key Steps for establishing the budget

RED – Key steps for monitoring the budget set in the prior financial year