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Signed by Chief Executive Officer

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**This document is available in alternative formats (e.g. larger font) if requested.**

## 1 PURPOSE

The purpose of this policy is to establish the overarching framework guiding the formulation, review, and approval of the annual budget for Loddon Shire Council, and the circumstances in which Council would formally revise the budget.

## 2 SCOPE

This policy applies to the Mayor, Councillors, Chief Executive Officer, all delegated purchasing officers, all other Council staff, temporary employees, contractors and consultants while engaged by Council, who contribute to the development of the annual budget.

## 3 POLICY

The policy articulates the core financial principles and governance standards that underpin the budget-setting process, ensuring Council's financial planning is robust, transparent, and aligned with both statutory obligations and community expectations.

The budget development process is guided by the Council Plan, the 10-year Financial Plan, and supporting strategies. When preparing the annual budget, Council must consider initiatives from the Council Plan, external influences and any new proposals.

The creation of the annual budget is an essential element of Council's coordinated planning process, ensuring that resources are properly allocated to support Council's ongoing programs and strategic initiatives. The *Local Government Act 2020* (the Act) mandates that Council must prepare and adopt an annual budget each year.

Council is committed to effective budget management, ensuring open and transparent communication with the community throughout the development, presentation and reporting of financial information, while delivering services that are both economically and socially sustainable.

Council will take a strategic approach to the delivery of services, capital works and projects, ensuring the budget supports the objectives and strategies outlined in the Council Plan. Management will prepare the budget according to the service levels approved by Council and then submit to Council for consideration and adoption.

### 3.1 General financial principles

A set of financial management principles have been identified to guide Council in the development of its annual budget and long-term financial plans.

#### 3.1.1 Sustainable budgeting principle

Council will implement a sustainable financial strategy that:

- addresses both short and long-term needs
- factors in community expectations
- aligns with the Council Plan
- is committed to achieving an annual surplus to contribute to capital projects

- is consistent with the financial management principles set out in section 101 of the Local Government Act 2020.

### 3.1.2 Cash management principle

Council will manage cash to ensure adequate funds are available to meet its obligations by:

- maintaining sufficient cash on hand to prevent incurring overdraft interest
- targeting a minimum cash balance that is at least 20% higher than the combined total of current deposits, current interest-bearing liabilities, and any reserve funds deemed necessary.
- applying reserve accounting when a suitable plan has been established.

## Revenue principles

### 3.1.3 Rates and charges principle

Council will:

- conduct an annual review of rates after the Minister for Local Government announces the rate cap
- consider making an application for a higher cap if the available income is insufficient to support the Council Plan, Financial Plan, or current expenditure commitments.

Differential rating will be applied as fairly as possible and will comply with the Ministerial Guidelines for Differential Rating and as reported in the Revenue and Rating Plan.

Where the direct benefit of a service can be identified, charges may be set to reflect the actual cost of providing that service, helping to minimise 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 education and understanding of waste management
- are in line with legislative requirements and best practices
- provide flexibility in service delivery
- increase social enterprise opportunities
- are cost neutral through appropriate fees and charges, and rating strategies.

### 3.1.4 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 benefits
- benchmarking of similar services

Costs will account for overhead expense and clearly identify any service subsidies. Council will increase fees based on cost increases, consider pricing strategies to encourage behaviour

changes, and advocate for appropriate increases to statutory fees that are not governed by Council.

### 3.1.5 Grant revenue principle

Council supports funding from other levels of government and will seek to maximise all appropriate external funding opportunities and will seek to consider the below:

- 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 and Project Framework.
- Council will avoid distortion of priorities due to the availability of external funding.
- funding received from other levels of government would be expected to meet full direct and indirect costs.
- where Council chooses to subsidise a funded service, the contribution should not outweigh the community benefit.

### 3.1.6 Borrowing principle

Council currently has no outstanding borrowings; however, if borrowing becomes appropriate in the future, the following principles will be observed and aligned to the Borrowing Policy:

- borrowing will not be used to fund ongoing operations
- where possible debt will be used or increased only to the extent that:
  - the cost savings are realised from investments in capital
  - debt servicing costs are funded from future revenue streams
  - all alternative sources of reserve funding, where applicable have been utilised
- borrowings are appropriate for funding large capital works where the benefits are provided to future generations
- council will maintain its debt at levels which are sustainable, with:
  - indebtedness < 40% of rates and charges revenue
  - debt servicing cost < 10% of rate revenue

### **Asset management principles**

Council will acquire and dispose of assets in the best interests of the community and consistent with the objectives of the Council Plan.

### 3.1.7 Asset rationalisation principle

Council will routinely assess its asset portfolio to identify opportunities for rationalisation. When assets are disposed of, Council will:

- ensure that disposal is justified by a substantiated need, based on either Council priorities or demonstrated community need
- carry out comprehensive evaluations covering both community impact and financial considerations
- ensure that proceeds from property sales are not used for routine operational expenses and may instead be retained in reserve accounts for future property-related purposes.

### 3.1.8 Asset renewal principle

Council will maintain its asset portfolio to ensure assets are suitable for their intended use, deliver maximum benefit to the community, and remain with the financial capacity of Council. Ongoing maintenance and renewal of existing assets will be guided by:

- using condition ratings and interventions set by asset management strategies to determine maintenance and renewal priorities
- criteria-based prioritisation that clearly demonstrates how renewal funding is allocated
- proactively identifying and addressing risks of asset failure
- committing to increasing expenditure on renewal to sustainably manage assets
- ensuring sufficient funds are provided to meet compliance and safety requirements.

### 3.1.9 New/Upgrade asset principle

Council will ensure the community has access to infrastructure that addresses both the current and future needs. When constructing/upgrading or acquiring new assets, Council will:

- remain within the limitation of Council's financial and resource capabilities
- deliver clear and measurable tangible benefits
- consider the needs of both current and future generations
- explore asset / service substitutions as a funding option for new assets
- assess opportunities to consolidate assets and/or services where appropriate
- apply a criteria-based approach to prioritising funding between new, upgrade and renewal activities
- conduct financial analysis to account for ongoing operational, maintenance, and renewal expenses.

## **Service delivery principles**

### 3.1.10 Employee costs principle

Council will determine salary increases for all staff according to the terms of the existing Enterprise Agreement. If negotiations for a new Enterprise Agreement are underway, adjustments to employee costs in the budget will be guided by agreements recently settled by comparable councils.

Any statutory increases to employee benefits will be incorporated into the financial year in which they take effect.

Each year, Council will review employee vacancy rates for incorporation to the budget process in response to the ongoing challenges in recruiting staff throughout the Loddon Shire area.

### 3.1.11 Expenditure review principle

Council will regularly evaluate its spending and conduct ongoing service reviews, considering the following factors:

- a 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 and deliver the service
- availability of State or Federal Government funding
- competing budget priorities

Additionally, Council will explore opportunities for private/public partnerships, shared services and collaborative projects when appropriate.

A range of methods will be used to guide operational principles, including zero-based budgeting techniques and appropriate indexation measures, to ensure robust financial management during the budget-setting process.

Assumptions regarding annual adjustments or movements that align with the relevant financial principles will be reviewed annually according to this policy. These assumptions will be incorporated into the preparation of both the Annual Budget and the Financial Plan.

### **3.2 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.

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.

### **3.3 Revised budget**

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

Loddon Shire Council will formally revise their budget if:

- there is a variation to the declared rates or charges; or
- there is a requirement to undertake any borrowings that have not been approved in the adopted budget; or
- there is a change to the budget that Council considers should be the subject of community engagement.

## 4 HUMAN RIGHTS STATEMENT

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights Act. Loddon Shire Council is committed to consultation and cooperation between management and employees. The Council will formally involve elected employee Health and Safety Representatives in any workplace change that may affect the health and safety of any of its employees.

## 5 REVIEW

The Manager Financial Services will review this policy for any necessary amendments no later than 4 years after adoption of this current version.