

# Financial Management Policy

Policy No MSC21E

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## 1. Policy Objectives

- Provide certainty about the roles, responsibilities and process for preparing, approving and amending the annual and delivery program budget.
- Ensure that budget variations are considered on a strategic basis.
- Maintain financial sustainability by ensuring that the long-term financial outlook is considered in decision making.
- Maintain financial sustainability by ensuring that Muswellbrook Shire Council (Council) is regularly informed of trends that may impact on the annual budget and long-term financial outlook.
- Ensure compliance with approved budget resource allocations.

## 2. Definitions

Term	Definition in regard to this policy
<b>Estimate or Allocation</b>	The amount of money provided in the budget for an individual program or purchase. The amount of revenue estimated to be derived from a particular source.
<b>Budget</b>	The document adopted by Council outlining estimates made regarding Council's Operating and Capital activities for the Financial Year. Any changes made by Council either through resolution or adoption of the Quarterly Budget Review are deemed to form part of the budget.
<b>Business Unit</b>	A distinct portion of the Council's operations, under the control of a single manager that consolidates a series of related programs.
<b>Finance Committee</b>	The Committee established by Council to oversee matters related to the financial control of Council.
<b>Funding</b>	The means by which the allocations made are made available for the activity or purchase.
<b>MANEX</b>	Council's Management Executive Group
<b>Materiality</b>	An amount by which the over expenditure or under receipt of an estimate might cause Council to need to take a significant action or to reallocate significant financial resources. Amounts considered to be material for the purposes of this policy are outlined in the table within the policy.
<b>Program</b>	An operation undertaken by a Business Unit or under a Capital Works Program for which a separate and distinct allocation has been made.
<b>Quarterly Budget Review</b>	The formal process by which Council reviews all financial estimates against actual expenditure and revenue at that time and responds to instances where actual results are not in line with estimates. These are conducted at the end of the September, December, March and June quarters.

Term	Definition in regard to this policy
<b>Net Operating Result</b>	The result shown in the budget pertaining to a particular Business Unit after taking into account the revenues and expenditures pertaining to that Business Unit.
<b>Responsible Accounting Officer</b>	The staff officer appointed to this role in accordance with clause 196 of the Local Government (General) Regulation 2005

### 3. Scope

This policy relates to:

All officers who have a financial responsibility within Council, with a particular focus on the Mayor, Councillors, General Manager, Deputy General Manager, Chief Engineer, Executive Managers, Managers, Directorate Finance Officers and nominated Budget Owners.

### 4. Policy Statement

Council accepts the importance of adopting a budget with estimates that allow for the effective operation of Council's activities. Council also accepts the need to ensure that, once adopted, the estimates made are strictly adhered to, with all material instances of non-adherence being reported in a timely manner to the appropriate forum.

This policy seeks to outline how Council will comply with clause 202 of Local Government (General) Regulation 2005 which states:

*202 The Chief Financial Officer is to maintain a system for budgetary control:*

*The Chief Financial Officer of a council must:*

- a) Establish and maintain a system of budgetary control that will enable the council's actual income and expenditure to be monitored each month and to be compared with the estimate of the Council's income and expenditure, and*
- b) If any instance arises where the actual income or expenditure of the Council is materially different from its estimated income or expenditure, report the instance to the next meeting of the Council.*

In regard to clause (a) of the Regulation, a reporting system will be maintained that allows staff ongoing oversight of current actual revenues and expenditures compared with the estimate. All instances of actual or likely non-compliance with the estimate are to be reported to MANEX on a monthly basis.

In response to clause (b) of the Regulation, Council deems the following reporting processes to be appropriate.

- Where the variance from the estimate is deemed to be favourable i.e. the actual expenditure is materially less than the estimate or the actual revenue is materially more than the estimate, then the matter will be considered as part of the next Quarterly Budget Review process. This will allow the matter to be considered in conjunction with the financial situation as a whole.
- Where the variance from the estimate is deemed to be adverse i.e. the actual expenditure is materially greater than the estimates or the actual revenue is materially less than the estimate then the matter must be reported to the next Council meeting in accordance with the Regulation.

- In order to determine the most appropriate forum for the reporting of any material expenditure over the estimate or the under receipt of estimated revenues, staff shall have regard to the materiality of the matter. For the purposes of this Policy, the situation shall be considered material when the amount of over expenditure or under receipt of the estimate is within the ranges set out in the table below:

Amount of Estimate	Amount Considered to be Material
<b>Less than \$200,000</b>	More than \$10,000
<b>Between \$200,000 and \$1,000,000</b>	5% of the allocation
<b>Greater than \$1,000,000</b>	More than \$50,000

Where the instances of non-adherence are not deemed to be material, the matter shall be considered as part of the next Quarterly Budget Review process. In the event that it has become clear that a material adverse variance (i.e. the over expenditure or under receipt of an estimate) is likely to occur, the matter must be reported to the next meeting of Council or through the next Budget review Process. In making this decision, consideration will be given to the timing of the variance occurring, the ability to reschedule or halt works underway in accordance with the allocation while a decision is being made, the amount of the expected variance and the ability to maintain the Net Operating Result of the Business Unit after taking the variance into account.

For the purposes of this Policy, the estimates and actuals shall be compared at the Program level.

With regard to the alteration of estimates during the course of the year, this may be undertaken in two (2) ways:

- Through the Quarterly Budget Review process.
- Through a resolution of the Council.

During the Quarterly Budget Review process staff will review the actual and expected performance against the relevant estimates and propose a series of alterations to the original estimates to the Finance Committee. In the development of these proposed changes the following principles will be applied:

- The overall Operating Result for each Fund will at least be maintained or preferably improved.
- Proposals for changed estimates at a Program level will be balanced off as far as possible with changes in the estimate for other Programs within the same Business Unit. The aim is to at least maintain the budgeted net result applicable to the Business Unit. Where this is not possible the change to estimate may be balanced off against savings or increased revenues in other Business Units.
- Where there is a favourable budget variance, the resultant 'gain' does not automatically belong to the directorate and should be made available for Council to consider the most appropriate corporate allocation.
- Where there is an unfavourable variation that is unable to be funded by the directorate, the matter should be referred to the Chief Financial Officer to identify an offsetting funding source.
- Commercial business activities must submit a balanced budget review. Any variation in 'returns' from commercial business activities must be referred to the Chief Financial Officer for comment.

## 5. Items to be Considered by the Finance Committee

The Finance Committee will be provided with the following information:

### Quarterly

- A full Budget document showing the original estimates, actual amounts and any proposed altered estimates.
- A list of all proposed changes to operating expenditure or revenue estimates greater than \$10,000.
- A list of all proposed changes or reallocations within the same budget centre to capital expenditure or revenue estimates greater than \$10,000.
- A list of all Reserves showing opening balance, approved transfers from/to, proposed movements from/to and estimated closing balance as at 30 June.
- Reports showing revenue and expenses by Type and By Business Unit
- A report on proposed changes in the review, outlining the financial impact of proposals and highlighting any significant proposed changes to estimates that may impact on Council's financial sustainability.
- A report on projects that have funding sources consisting of reserves, grants, loans or a combination of the same that details; budget, funding source, funding source amount used/drawn down to date, expenditure to date, expected expenditure to completion and expected completion date.

### Monthly

- Financial reports at Income Statement level which provide expenditure and revenue trends but make no recommendations in terms of estimate variations for:
  - General Fund
  - Water Fund
  - Sewer Fund
  - Future Fund
- Investment reports detailing:
  - Portfolio Valuation Report
  - Trading Limit Report

## 6. Funding of Proposals Outside of the Quarterly Budget review Process

Proposals may only be submitted to Finance Committee outside of the Quarterly Budget Review process with the approval of the General Manager.

All items required to be presented to the Finance Committee should be presented to the same meeting as the quarterly budget review except where:

- Time is of the essence e.g. grant funding opportunities, acquisitions, expediency of work scheduling, unforeseen issue that needs to be addressed prior to the next quarterly review.
- A particular issue needs to be addressed urgently in the interest of the Community or Council.
- The item is of a complex nature and may need to be considered at more than one Finance Committee meeting.

- A proposal or issue that can be appropriately considered outside of the quarterly budget review process e.g. review of Council's long-term financial position.

Regardless of the timing of consideration by the Finance Committee, all items should be considered in the context of Council's overall short and longer term financial position.

In a situation where a budget variance is to be funded from existing funds, the report must clearly identify the source of funds to be transferred and the reason that the funding source is not required for its original purpose and the impact of not spending the funding for its original purpose. All stakeholders must be consulted in relation to the transfer of funds and this consultation should be included in the report.

Estimates can also be altered by resolution at a meeting of Council. In such instances, staff shall provide a report that outlines the following:

- The need for the altered or new estimate.
- The quantum of the altered or new estimate.
- The source of the funding that is required to allow for the altered or new estimate.

Council may also provide for contingency estimates in either the Operating or Capital Budgets. In using these funds, the General Manager is delegated authority to make payment in relation to an event or matter that has arisen in the normal course of Council's business but was unexpected in terms of either the nature (i.e. it was an event that could not have been reasonably expected) or scale (the cost of the event is greater than could have been reasonably expected) of the event or matter. The allocation may also be used in the case of a good or service being required urgently and no other appropriate allocation is available. The contingency allocation is not intended to be used as a source of funding for new activities, actions or goods.

When the contingency allocation is used, the contingency allocation is reduced and the allocation for the appropriate Activity is increased. These proposed changes will occur at the next Quarterly Budget Review.

In instances where an allocation needs to be altered so urgently that the processes outlined above are not practicable, the Mayor may authorise the alteration in accordance with the provisions of Section 226 of the Local Government Act 1993.

## **7. General Principles**

### **7.1 Annual Budget Position**

Under no circumstances is the annual budget allowed to go into a deficit position. If the annual budget is likely to go into a deficit position due to a high priority unfavourable variation, a corresponding favourable variation must be identified to balance the budget.

The annual budget must align with and as far as possible support the delivery of the annual Operational Plan.

### **7.2 Long Term Financial Outlook**

All variations to the annual budget must give consideration to the long-term financial outlook of Council.

If a proposed variation is likely to impact on the four year Delivery Program or a future budget, the impact needs to be fully disclosed in the item/justification to Council.

If an item is likely to have a significant or material impact on future budgets or the long-term financial outlook of Council, a separate report is required that includes an impact statement from the Chief Financial Officer. Judgement needs to be exercised in assessing whether a particular

matter has a significant or material impact on the financial outlook of Council. If uncertain, the item should be discussed with the General Manager.

### 7.3 Salaries and Wages

An amount of money will be included in the budget that allows for probable progression in line with the Local Government (State) Award.

### 7.4 Recurrent and Non-Recurrent Estimate Variances

Any variation to a budget must also be identified in terms of 'Recurrent' or 'Non-Recurrent', as defined below:

**Recurrent Budget** – may be considered as a 'base budget' which represents the current level of service provided on an ongoing basis.

**Non-recurrent Budget** – may be considered as any expenditure/revenue budget that is not ongoing and may be approved for a limited period only.

Budgeted funds cannot be transferred between recurrent and non-recurrent.

The covering report for the budget variation is to provide a summary of the recurrent variations included in the review and the effect of the proposed variations on future budgets.

## 8. Legislation

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Local Government Code of Accounting Practice

## 9. Associated Council Documentation

- Community Strategic Plan
- Operational Plan
- Delivery Program
- Long Term Financial Plan
- Asset Management Plans
- Revenue Policy
- Resourcing Strategy
- Workforce Plan



## Authorisation Details

<b>Authorised by:</b>	Corporate Policy and Planning Committee
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## Details History

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2	22/12/20	Finance Committee	Major re-write