

Local Government Better Practice Guide

Model Budget 2018-19



Local Government Victoria, FG 1 - 2018



Environment,
Land, Water
and Planning

Acknowledgements

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Contents

A message from Local Government Victoria	4
Introduction	5
The Local Government Act 1989.....	5
About this guide.....	5
Preparation of this better practice guide.....	6
Planning and Accountability Framework	7
Local Government Model Budget (Overview)	8
Statutory requirements.....	8
Local Government Model Budget (Guidance)	11
Better practice guidance.....	11
Mayor and CEO’s Introduction.....	13
Link to the Council Plan.....	15
Planning and accountability framework.....	15
Council’s purpose.....	15
Strategic objectives.....	15
Services and initiatives and service performance outcome indicators.....	15
Service performance indicators.....	16
Reconciliation of strategic objectives with budgeted operating result.....	17
Financial statements.....	17
Statement of human resources.....	17
Rates and charges.....	17
Income (excluding rates and grants) and expenses.....	19
Grants.....	19
Borrowings.....	20
Capital works program.....	20
Financial performance indicators.....	20
Glossary	25
References	27

A message from Local Government Victoria

Welcome to this Better Practice Guide (BPG) which accompanies the Local Government Model Budget 2018-19 (Model Budget).

This year Local Government Victoria (LGV) have taken over responsibility for the co-ordination and resourcing of updating the Model Budget. I would like to acknowledge the significant contribution of the Chartered Accountants Australia and New Zealand (CAANZ) in developing and issuing a best practice guide for reporting on local government budgets in Victoria over the past 15 years. Thank you also to the many dedicated and committed sector practitioners who have participated in working party meetings and voluntarily contributed their time and effort to refresh the guide over this time. The content and commentary in the 2017-18 edition and earlier versions remains a valuable resource and reference for councils.

For this year LGV convened a working group to guide the development of the Model Budget and introduced a number of changes to the previous edition's content and structure. This document, a separate BPG, has been developed as an accompanying reference and contains guidance and commentary in relation to the Model Budget. The Model Budget itself has been streamlined to focus on the mandatory requirements of the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*. In addition, the financial statements in the Model Budget now include note references which allows for sequential explanation of material items.

A more detailed summary of the changes made to the Model Budget is available on the Department's website at www.localgovernment.vic.gov.au.

I trust that you find the Model Budget and this associated BPG very practical tools to assist in the preparation of your annual budget for the 2018-19 financial year.

Graeme Emonson
Executive Director
Local Government Victoria

Introduction

Local government in Victoria manages approximately \$91.2 billion¹ of community assets and infrastructure and spends around \$8.1 billion² on the provision of services annually. Local government, in partnership with other levels of government, is responsible for aspects of everyday life that people care about deeply – from vibrant and safe public spaces, to accessible libraries, to strong local business and employment opportunities. Effective planning and reporting by councils is essential for ensuring transparency and accountability to the community and other levels of government as to how public money is being spent and the quality of services delivered.

The Local Government Act 1989

The *Local Government Act 1989* (the Act) states the primary objective of a council is to endeavour to achieve the best outcomes for the local community having regard to the long-term and cumulative effects of decisions.³ The Act sets out local government in Victoria:

- is a distinct and essential tier of government,⁴ and
- must provide governance and leadership for the local community through advocacy, decision making and action.⁵

The Act also states it is essential there is a legislative framework that provides for councils to be accountable to their local communities in the performance of functions and the exercise of powers and the use of resources.⁶

It is a statutory requirement under the Act that councils prepare and report on medium and short-term plans to discharge their duties of accountability and transparency to their communities.

About this guide

Councils are required to prepare an annual budget in respect of each financial year.

This guide has been developed to help local government in meeting statutory requirements relating to the preparation of their annual budget.

This guide is presented in three sections.

- **Planning and Accountability Framework** provides an overview of the relationship between the key planning and reporting documents.
- **Local Government Model Budget (overview)** provides an overview of statutory and other requirements in relation to the annual budget.

1 Victorian Auditor-General's Office (2017), Results of 2016-17 Audits: Local Government

2 Victorian Auditor-General's Office (2017), Results of 2016-17 Audits: Local Government

3 Section 3C(1) of the *Local Government Act 1989*

4 Section 1(1) of the *Local Government Act 1989*

5 Section 1(4) of the *Local Government Act 1989*

6 Section 1(5) of the *Local Government Act 1989*

- **Local Government Model Budget (guidance)** provides detailed guidance on the preparation and content of the annual budget in the sequence of the Model Budget 2018-19.

The guide is intended for use by local government finance professionals. Each council retains the responsibility for preparing its annual budget, including the format and the disclosures made. This guide, along with the Model Budget 2018-19, represents the annual budget presentation required by LGV. The guide directs users to related information and further guidance where applicable. Footnotes are used to reference legislative provisions and other relevant information. Illustrative information and examples are provided in tables and boxed text.

Preparation of this better practice guide

LGV is responsible for the development of this BPG and will update and reissue it on an annual basis. LGV convened a working group to guide the development of both the Model Budget 2018-19 and this guide.

The working group for the Model Budget 2018-19 is comprised of representatives from the accounting profession, local government practitioners, the local government finance professionals (FINPro) and LGV. Technical advice and assistance in preparing the Model Budget and BPG was provided by Crowe Horwath. LGV would like to take this opportunity to acknowledge the contribution of each of the members of the working group towards the development of the Model Budget 2018-19 and this guide.

Model Budget 2018-19 working group membership

Local government practitioners	
James Scott, CA	Moreland City Council (working group chairman)
Bradley Thomas, CA	Mount Alexander Shire Council
John Brockway, CPA	Surf Coast Shire Council
Accounting profession	
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Local government finance professionals (FINPro)	
Ange Marshall, CPA	Yarra City Council
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Daniel O'Shea, CPA	Local Government Victoria

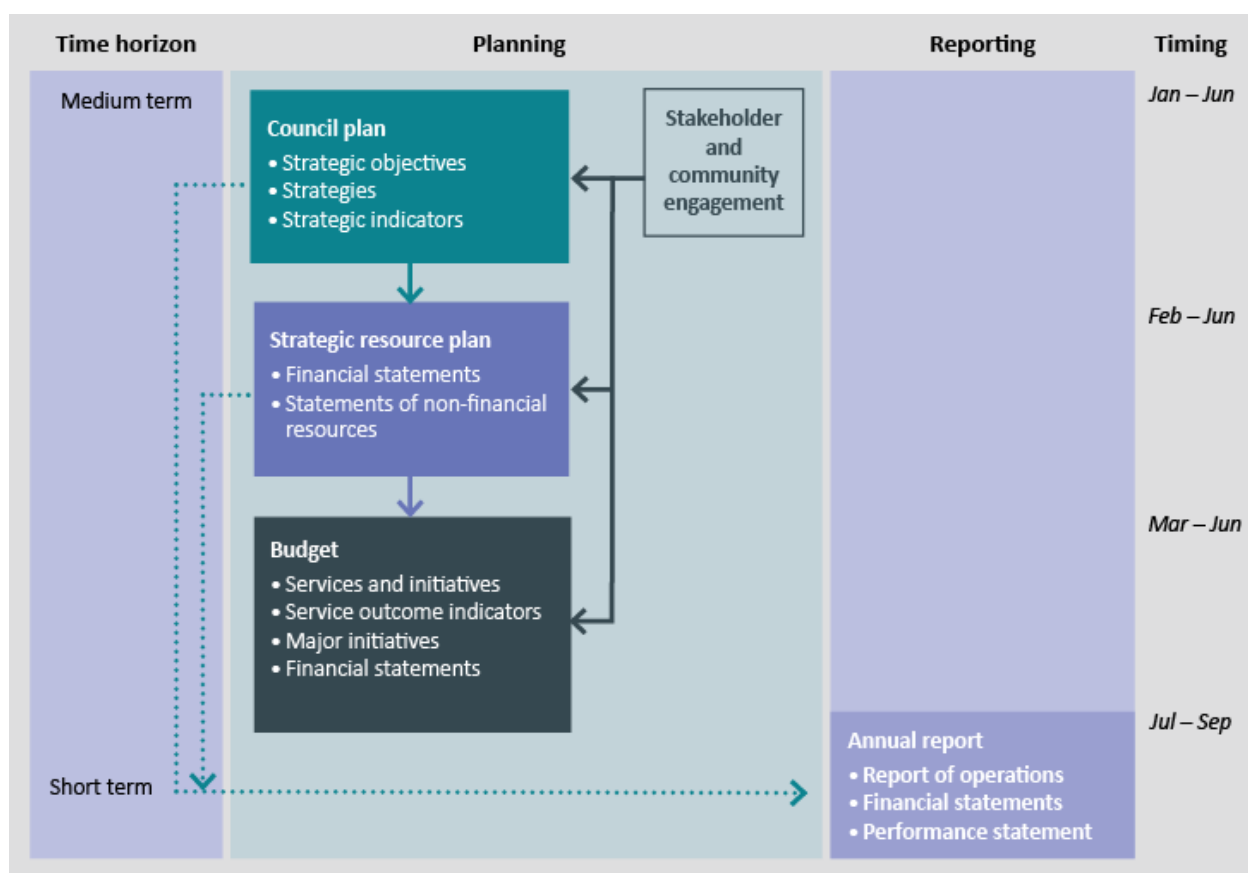
Planning and Accountability Framework

The planning and accountability framework is found in part 6 of the Act and in the Local Government (Planning and Reporting) Regulations 2014 (the regulations). The legislation requires councils to prepare the following documents:

- a council plan within the period of six months after each general election or by 30 June, whichever is later,⁷
- a strategic resource plan for a period of at least four years and include this in the council plan,⁸
- a budget for each financial year,⁹ and
- an annual report in respect of each financial year.¹⁰

The following diagram shows the relationships between the key planning and reporting documents that make up the planning and accountability framework for local government. It also shows that there are opportunities for community and stakeholder input and feedback at each stage of the planning and reporting cycle. This is important to ensure accountability to residents and ratepayers.

Figure 1 - Planning and Accountability Framework



7 Section 125 of the *Local Government Act 1989*

8 Section 126 of the *Local Government Act 1989*

9 Section 127 of the *Local Government Act 1989*

10 Section 131 of the *Local Government Act 1989*

Local Government Model Budget (Overview)

Statutory requirements

“The Act requires councils to prepare a budget for each financial year.”

Sections 127, 128, 129 and 130 of the Act state that:

- a council must prepare a budget for each financial year which contains financial statements¹¹
- the budget must include a description of services and initiatives to be funded and how they will contribute to achieving the strategic objectives as specified in the council plan¹²
- the budget must contain for services to be funded in the budget, the prescribed indicators of service performance that must be reported against in the performance statement and the prescribed measures relating to those indicators¹³
- the budget must identify major initiatives which will be undertaken during the financial year and the prescribed indicators and measures of service outcome performance¹⁴
- the budget must contain the amount which the council intends to raise by general rates, municipal charges, service rates and service charges and whether general rates will be raised by the application of a uniform rate, differential rate or limited differential rate¹⁵
- if the council intends to declare a differential rate for any land, it must include details of the differential rate in the budget¹⁶
- the budget must contain a statement if council intends to apply for a special order to increase the average rate cap, or if it has made an application to the ESC for a special order to increase the average rate cap, or if a special order has been made and a higher cap applies for the financial year¹⁷
- before adopting its budget, a council must give public notice and invite public submissions, specifying the date by which submissions must be lodged that is not less than 28 days after the public notice is published¹⁸
- a copy of the proposed budget must be made available for public inspection at the council office and internet website¹⁹
- the proposed budget may be prepared on the basis of an average rate cap, or a proposed higher cap, or both an average rate cap and a proposed higher cap²⁰
- members of the public may make written submissions and, if they so desire, request to be heard in support of their submission²¹

11 Section 127(1) and 127(2)(a) of the *Local Government Act 1989*

12 Section 127(2)(b) and (c) of the *Local Government Act 1989*

13 Section 127(2)(da) and (db) of the *Local Government Act 1989*

14 Section 127(2)(d)(da) and (db) of the *Local Government Act 1989*

15 Section 127(3)(a) and 158(1)(a) and (b) of the *Local Government Act 1989*

16 Sections 127(3)(b)(c) and 161(2) of the *Local Government Act 1989*

17 Section 127(4)(a)(b) and (c) of the *Local Government Act 1989*

18 Section 129(1)(2)(3) and 223(1)(a)(iii) of the *Local Government Act 1989*

19 Section 129(4) of the *Local Government Act 1989*

20 Section 129(5)(a) and (b) of the *Local Government Act 1989*

- a council must adopt and submit a copy of the budget to the Minister by 30 June each year or such other date fixed by the Minister and a copy must be available for public inspection at the council office and internet website.²²

In addition to sections 127, 128, 129 and 130 of the Act, councils should review part 3 of the regulations for further details relating to the preparation of the budget or revised budget.²³

Regulations 9 and 10 in part three of the regulations state that the financial statements included in a budget or revised budget must:

- be in the form set out in the Local Government Model Financial Report²⁴
- contain a statement of capital works for the financial years to which the financial statements relate²⁵
- Contain specified other information in relation to the financial year to which the budget or revised budget relates.²⁶

Checklist

The budget must include:

- financial statements describing the required financial resources for the next twelve months
- a description of the services and initiatives to be funded in the budget
- a statement as to how the services and initiatives will contribute to achieving the strategic objectives specified in the council plan
- the prescribed indicators and measures of service performance to be reported against in the performance statement
- major initiatives identified as priorities to be undertaken during the financial year
- the prescribed outcome indicators and measures of service performance for services funded in the budget
- the amount to be raised by rates and charges
- a statement, if applicable, regarding the status of an application for a higher rate cap
- any other information prescribed by the regulations.

21 Section 223(1)(a)(iv) of the *Local Government Act 1989*

22 Section 130 and 82A(2)(ab)(iii) of the *Local Government Act 1989*

23 For information on revised budgets see Section 128 of the *Local Government Act 1989*

24 Regulation 9(b) of the Local Government (Planning and Reporting) Regulations 2014

25 Regulation 9(a) of the Local Government (Planning and Reporting) Regulations 2014

26 Regulation 10 of the Local Government (Planning and Reporting) Regulations 2014



Local Government Model Budget (Guidance)

Better practice guidance

The budget is a short-term plan which specifies the resources required to fund a council's services and initiatives over the next 12 months and should be consistent with the first year of the strategic resource plan.

The budget includes both strategic and operational information. At the strategic level, the budget details how the services and initiatives to be funded will contribute to the achievement of the strategic objectives in the council plan as well as the indicators and measures to monitor service performance outcomes. It must also contain major initiatives which have been identified by council as priorities. At the operational level it should express the funding of services and initiatives through financial statements describing in detail the income, expenditure, assets, liabilities, equity, cash and capital works required.

It is expected that local government finance professionals exercise professional judgement in preparing the financial statements included in a budget or revised budget in the form set out in the Local Government Model Financial Report (LGMFR).

At a minimum the budget must include:

- financial statements including a statement of capital works²⁷
- a detailed list of planned capital works expenditure in relation to non-current assets, classified in accordance with the asset classes and asset expenditure types specified in the *Local Government Model Financial Report* and a summary of funding sources in relation to the planned capital works expenditure²⁸
- a statement of human resources²⁹
- a summary of planned expenditure in relation to permanent human resources and a summary of the planned number of permanent full time equivalent staff by organisational structure³⁰
- a list of grants by type and source classified separately as to recurrent operating, recurrent capital, non-recurrent operating and non-recurrent capital³¹
- details about borrowings, including the amount to be borrowed, the amount to be redeemed and total borrowings³²
- details about rates and charges, including the types of rates and charges to be levied, the value of land, number of assessments and the amount to be raised.³³

A key consideration of the budget preparation process is setting the rates and charges to be paid by each of the properties within the municipal district. From the 2016-17 financial year, all councils were subject to an average rate cap set by the Minister. An individual council may apply for a higher cap by making an application to the ESC. The application amongst other things must specify how the views of ratepayers and the community have been taken into account in proposing the higher cap.³⁴ While the public submission process is the main opportunity for ratepayers to voice their opinion about the budget, a separate community consultation

Revised budget

A council must prepare a revised budget if circumstances arise which cause a material change in the budget and which affect the financial operations and position of council. Material change is not defined in the Act and therefore it is a matter of judgement by a council as to when a revised budget is required. A typical example would be where borrowings are required during a financial year, which was not proposed in the adopted budget. If a council decides to prepare a revised budget, it must follow the same preparation and public consultation process as for the original budget.

27 Regulation 9(a) and (b) of the Local Government (Planning and Reporting) Regulations 2014

28 Regulation 10(1)(a) and (b) of the Local Government (Planning and Reporting) Regulations 2014

29 Regulation 10(1)(c) of the Local Government (Planning and Reporting) Regulations 2014

30 Regulation 10(1)(d) and (e) of the Local Government (Planning and Reporting) Regulations 2014

31 Regulation 10(1)(f) of the Local Government (Planning and Reporting) Regulations 2014

32 Regulation 10(1)(g), (h) and (i) of the Local Government (Planning and Reporting) Regulations 2014

33 Regulation 10(2) of the Local Government (Planning and Reporting) Regulations 2014

34 Section 185E(3)(c) of the *Local Government Act 1989*

process will need to be undertaken to support an application for a higher cap. The budget should therefore include a separate section on rates and charges including the proposed increase in the total amount of rates and charges to be raised (including justification) and the rating structure to be used for allocating the burden to the different types or classes of land. It is good practice to underpin decisions about rates and charges with a rating strategy.³⁵

³⁵ Further guidance on preparing rating strategies can be found in the *Local Government Better Practice Guide Revenue and Rating Strategy 2014* available at www.localgovernment.vic.gov.au.

The following specific guidance is provided to assist local government finance professionals in preparing the council's annual budget. It is designed as a complementary reference to the Model Budget 2018-19. For ease of referencing each piece of guidance has been assigned a unique number.

Reference	Guidance
Mayor and CEO's Introduction	

G1

The Mayor and CEO's Introduction serves two purposes, these are as follows.

1. To provide an overview of the budget in the context of the council plan.

The purpose of the Mayor's and CEO's introduction is to provide an accessible and consumable overview of the budget which is integrated to council's four-year vision as articulated in the Council Plan. It also provides an avenue to demonstrate that the council has, in setting the budget, taken community feedback and concerns into account and demonstrate ownership of the budget by the council. It can also highlight key issues of interest to the community including major capital projects as well as emerging challenges and how council proposes addressing these.

With the advent of rate capping, it is important to confirm whether council has complied with the cap or intends to seek a variation. When it is a revaluation year it is important to highlight that actual rate increase experiences may be different.

Finally, the message should encourage the reader to delve into the detail and be a participant in the budget submission process.

2. To provide a financial snapshot of the current budget

The second purpose of the section is to provide the reader with a high level "snapshot" of the budget. Changes from prior year Model Budget format are intended to focus on making the summary readable by citizens without a financial background. Ideally, if citizens only read the budget summary, they will understand the key elements of the budget. More details and analysis are provided later in the budget. The summary should give consideration to the following areas:

- a. Key projects or initiatives that are being funded by the budget
- b. The rate increase and other charges
- c. Key statistics. Use of infographics is encouraged to make this user friendly for non-financial readers
- d. Budget influences
- e. Other sections as applicable to each council

This executive summary is not mandatory and so the contents are not prescribed. This provides an opportunity for each council to include a summary addressing budget issues that may come up (or that the council wants to convey to citizens).

Example Disclosure

Budget Summary

It gives us great pleasure to recommend this budget to the Victorian City Council (VCC) community.

This document outlines the broad range of services provided by council from home care for the elderly to road construction, urban planning, actions to keep our environment clean and providing leisure facilities plus so much more. It also details the funding that is required to deliver these services and maintain community infrastructure.

A great deal of work has been completed by council officers to find cost savings and this is reflected in the 2018-2019 annual budget. Rate increases have been capped at 2.25% in line with the Victorian

Government's Fair Go Rates System. Despite the financial challenge this poses, council is determined to maintain and enhance its services, while working within the cap. In continuing council's efforts to keep financial pressure on the community to a minimum, the rate for general residential, commercial and industrial rates has been increased by ___ per cent for the 2018-19 financial year, below the cap. Along with this, the cost for garbage collection on an 80-litre bin has only increased by ___ cents for 2018-19. Council will also fund several new initiatives and will allocate additional funds to renew the council's infrastructure.

A community consultation process was undertaken in early 2018 regarding the Council Plan and the Five Year Financial Plan, the results of which have informed the Council Plan and Strategic Resource Plan that accompany this budget.

The 2018 - 2019 budget follows through with competing priorities that were identified in the previous Council Plan, such as the \$__ million upgrade of the VCC Sports and Aquatic Precinct, council's largest capital project to date, and beginning to scope the new priorities identified from the 2018-2022 Council Plan. This budget is based on that feedback received and the resulting Strategic Resource Plan. Council plans to continue to seek community input and engage the Victorian City Council community in the important decisions.

The budget includes several initiatives and projects in 2018-2019:

- Upgrade of the VCC Sports and Aquatic Precinct (\$__M)
- VCC Community Centre (\$__M)
- VCC Oval Grandstand masterplan (\$__M)
- <List additional initiatives and projects as appropriate>

The Capital Works program for 2018-19 will be \$__M, excluding projects that may be carried over from the 2017/18 year. Of the \$__M in capital funding required, \$__M will come from Council operations, \$__M from external grants and contributions, \$__M from reserve cash and investments with no new borrowings required or (and \$__M to be funded by new borrowings).

We look forward to working with you in the community to deliver these exciting projects throughout the coming year.

Financial Snapshot

Key Statistics	2017-18 Forecast \$million	2018-19 Budget \$million
Total Expenditure	\$-	\$-
Comprehensive Operating Surplus	\$-	\$-
Underlying operating surplus	\$-	\$-
Cash result	\$-	\$-
Capital Works Program	\$-	\$-
Funding the Capital Works Program		
Council	\$-	\$-
Reserves	\$-	\$-
Borrowings	\$-	\$-
Grants	\$-	\$-
Budgeted expenditure by strategic objective	Budget \$million	Budget %
Strategic Objective 1	\$-	x%
Strategic Objective 2	\$-	x%
Strategic Objective 3	\$-	x%
Strategic Objective 4	\$-	x%

Link to the Council Plan

- G2** The purpose of linkage to the Council Plan is to show how the budget contributes to the achievement of the Council Plan. This section should include as a minimum, the following:
- a. Planning and accountability framework
 - b. Our purpose
 - c. Strategic objectives.

Planning and accountability framework

- G3** This section gives the reader a wider picture of how the budget fits into the strategic planning and reporting framework. As a significant number of readers may not be trained in financial management and corporate planning techniques, the planning and reporting framework is best illustrated diagrammatically with a brief explanation. The diagram should highlight how Council's overall longer term objectives feed into the Council Plan, link to the Annual Budget and show how they are expressed numerically in the financial statements included in the Strategic Resource Plan and Budget. The Council Plan, Strategic Resource Plan, Annual Budget and Annual Report (containing Audited Statements) are statutory requirements. The preparation of a longer term planning / vision document is not required by legislation but is common within council planning frameworks in Victoria.

Council's purpose

- G4** This section describes the vision, mission and values of the Council as set out in its Council Plan.

Strategic objectives

- G5** This section provides an overview of the strategic objectives, which when achieved, will deliver the outcome described in the vision and mission. A description is provided to allow the reader to understand each objective. The section should detail each strategic objective and include a brief overview.

Services and initiatives and service performance outcome indicators

- G6**
1. The purpose of the services, initiatives and service performance outcome indicators section is to show the strategic objectives and key strategies included in the Council Plan and how these will be translated into services delivered, initiatives and major initiatives undertaken in the forthcoming year. This enables the reader to obtain an understanding as to how revenue and expenditure levels are set and then how rating levels are determined. As a minimum this section should include the following:
 - a. Services, initiatives and major initiatives
 - b. Service performance outcome indicators
 - c. Reconciliation with budgeted operating result.

Section 127(2)(b) and (c) of the Act requires the budget to contain a description of the services and initiatives to be funded in the budget, and a statement as to how the services and initiatives will contribute to achieving the strategic objectives specified in the Council Plan. Section 127(2)(d) of the Act requires that the budget must also include major initiatives, being initiatives identified by the council as priorities, to be undertaken during the financial year. This section complies with these requirements and sets out what the council believes are the services, initiatives and major initiatives that will be achieved in line with the Council Plan.
 2. The services delivered by council are those undertaken to meet the needs of the community as reflected in the Council Plan. They tend to be ongoing in nature and have internal and external customers. It will be important that this section does not become a list of all services delivered by the council, since this level of disclosure would not be useful to the readers. It is recommended that the services be described at a level which gives the reader a good understanding (but not

detailed) of the services undertaken by council. The services should be grouped under the relevant strategic objective (Council Plan) to which they relate to show the linkage between the budget services and the Council Plan.

3. In addition to the services provided by council, the initiatives and major initiatives to be undertaken during the forthcoming year should also be described. Initiatives are tasks or actions that are once-off in nature and lead to improvements in service performance or service levels. Major initiatives are significant initiatives that the council has identified as priorities and that directly contribute to the achievement of the Council Plan during the budget year. The major initiatives should be limited to only those initiatives that will have a significant impact on the operations of the council in that financial year and will be of interest to the reader. They should be disclosed under the strategic objective to which they relate to show a clear linkage to the Council Plan including an estimate of the net cost (revenue).

Service performance indicators

G7

1. This section of the model budget includes the service performance outcome indicators (prescribed indicators of service performance) and prescribed measures that must be included in the budget under section 127 (2)(da) and (db) of the Act.

The prescribed indicators of service performance are required to be reported against in the performance statement under section 131 of the Act. Section 131(4)(a)(i) of the Act, states that the indicators of service performance that must be reported against in the performance statement are prescribed in the Regulations.

Regulation 15(1) of the regulations states that the indicators of service performance to be reported against in the performance statement are set out in Part 2 of Schedule 3 of the regulations. These indicators are to be linked to a strategic objective in the Council budget.

Where a service is not funded in the budget or is funded but the council does not have 'operational control' the relevant service performance outcome indicator is not required to be disclosed.

While not required by the Act or regulation, council is encouraged to include detailed results in the budget report to give readers a better understanding of the Council's performance on these indicators. Where possible this should include:

- a. Previous year's actual, and
- b. Current year forecast.

Background to the indicators

2. The Victorian Government introduced a new Local Government Performance Reporting Framework (LGPRF) which became mandatory for implementation by councils as part of the planning and reporting cycle in FY 2015-16.
 3. The Act provides the legislative basis for the LGPRF, supported by prescribed indicators contained within the regulations.
 4. The objective of the LGPRF is to provide comprehensive performance information that meets the needs of stakeholders to ensure that:
 - councils have information to support strategic decision-making and continuous improvement;
 - communities have information about council performance and productivity;
 - regulators have information to monitor compliance with relevant reporting requirements; and
 - State and Commonwealth Governments are better informed to make decisions that ensure an effective, efficient and sustainable system of local government.
 5. To provide a comprehensive picture of council performance, four indicator sets – service performance, financial performance, sustainable capacity and governance and management – have been developed across three thematic areas – service performance, financial performance
-

and sustainability. The performance statement comprises the service performance outcome indicators, financial performance and sustainable capacity indicators as established in section 131(4) of the Act and prescribed in part 4, division 2 and schedule 3 of the Regulations.

Reconciliation of strategic objectives with budgeted operating result

- G8** The reconciliation with budgeted operating result is not mandated however, it is suggested that such a reconciliation is good practice as it shows how the strategic objectives contained in the Council Plan have been funded in the Budget. The reconciliation should show the costs attributable to each strategic objective.

Financial statements

G9 **Purpose of Financial statements**

1. Section 127 of the Act requires that the budget contain financial statements in the form and containing the matters required by the regulations. The financial statements include a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Statement of Capital Works.
2. Regulation 9 of the regulations requires that the financial statements must be in the form set out in the Local Government Model Financial Report.
The financial statements in this Model Budget align with the draft Local Government Model Financial Report at the date of publication. Budget preparers should carefully review the form of the financial statements in the Local Government Model Financial Report issued by DELWP to ensure the correct format is applied.

Although not specifically required by the Act or regulations, the statements shown in Section 3 also include projections for the three years following the budget year and should be extracted from the Strategic Resource Plan to show the reader future financial trends. Each year, LGV issue the Strategic Resource Plan Better Practice Guide to provide guidance on the disclosures required by the Act and regulations. This can be found at:
<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>

3. The audited financial statements included in the annual report must also be prepared in accordance with current accounting standards and the Local Government Model Financial Report, and therefore the budgeted and actual financial statements are directly comparable. Care must be taken in preparation of the financial statements to ensure the terminology used for line items in the budget is consistent with the line items in the financial statements at the end of the financial year as both must be prepared in accordance with accounting standards. The model budget does not take into account the impact of accounting standards not yet effective. Where a pending standard is likely to have a significant impact, consideration should be given to incorporating this into the budget. As a minimum the matter, along with an estimate of the financial impact, should be disclosed in the narrative of the budget.

Statement of human resources

- G10** Regulation 10(1)(c) requires that the budget must contain a statement of human resources, defined as meaning a statement which shows all Council staff expenditure and the number of full time equivalent Council staff. Although not specifically required by the Act or regulations, the statement of human resources also includes projections for the three years following the budget year, consistent with the disclosures required in the Strategic Resource Plan. The model also includes details of temporary and casual staff which, although not required, provide additional information that is useful to the users of the budget.

Rates and charges

- G11** 1. The regulations require certain information to be disclosed within the budget (and revised budget) and some of these disclosures relating to rates and charges are made in this section.

Preparers of budgets should refer to the compliance checklist in this guide in order to review the requirements of the Act and Regulations.

Rates and charges

2. Section 127 of the Act requires the budget to contain the information the council is required to declare under Section 158(1) of the Act. This section requires the disclosure of the amount which the council intends to raise by general rates, municipal charges, service rates and service charges and whether the general rates will be raised by the application of a uniform rate, differential rates (under Section 161 and 161(2) or urban farm rates, farm rates or residential use rates (under Section 161A and 161(2)). Regulation 10(2)(a)-(r) sets out an extensive list of information required to be disclosed in the budget in regard to rates and charges, including:
 - a. The rate in the dollar to be levied for each type or class of land
 - b. The percentage change in the rate in the dollar to be levied for each type or class of land compared with the previous financial year
 - c. The estimated amount to be raised by general rates in relation to each type or class of land compared with the previous financial year
 - d. The estimated amount to be raised by general rates compared with the previous financial year
 - e. The number of assessments in relation to each type or class of land compared with the previous financial year
 - f. The number of assessments compared with the previous financial year
 - g. The basis of valuation to be used under Section 157 of the Act
 - h. The estimated value of each type or class of land compared with the previous financial year
 - i. The estimated total value of land rated under Section 158 of the Act compared with the previous financial year
 - j. The municipal charge under Section 159 of the Act compared with the previous financial year
 - k. The percentage change in the municipal charge compared with the previous financial year
 - l. The estimated amount to be raised by municipal charges compared with the previous financial year
 - m. The rate or unit amount to be levied for each type of service rate or charge under Section 162 of the Act compared with the previous financial year
 - n. The percentage change for each type of service rate or charge compared with the previous financial year
 - o. The estimated amount to be raised by each type of service rate or charge compared with the previous financial year
 - p. The estimated total amount to be raised by service rates and charges compared with the previous financial year
 - q. The estimated total amount to be raised by all rates and charges compared with the previous financial year
 - r. Any significant changes that may affect the estimated amounts to be raised.

Although not required by the regulations the inclusion of a reconciliation between rates and charges disclosed in the notes and that detailed in the Comprehensive Income Statement is recommended as it results in improved transparency and accountability.

3. The regulations now require the rates information above to be disclosed in relation to 'each type or class of land', regardless of whether the Council has levied a differential rate for those classes of land. The disclosures in this guide illustrate this requirement by showing rates information for the major types and classes of land for Victorian City Council of residential, commercial and industrial land (Victorian City Council having no farm or other land), even though Victorian City Council has only declared differential rates for residential and commercial land).

Recreational Land

4. Section 4 of the Cultural and Recreational Land Act 1963 requires the rates for recreational lands shall be levied “such amount as the municipal council thinks reasonable having regard to the services provided by the municipal council in relation to such lands and having regard to the benefit to the community derived from such recreational lands”.

Rates for Recreational lands need to be assessed case by case using the above guidance and this may mean that council has different discounts for different recreational lands subject to the assessment outcome.

Differential rates

5. Differential rates are a highly complex area and the disclosure required in this section is unique to each differential rate. To ensure appropriate disclosure councils should seek professional guidance to ensure compliance with requirements is met.

Rate Capping and Annualised Rates

6. Section 185B of the Act defines the calculation for the ‘Base Average Rate’ which includes ‘the total annualised revenue leviable from general rates, municipal charges and any other prescribed rates or charges on rateable properties within the Council’s municipal district as at 30 June in the base year’.

Any annualised rate income arising from any supplementary rates levied up until the time the proposed budget is prepared (typically late April) must be supported by auditable reports from the rating system or equivalent system.

For the period between budget preparation and 30 June, care needs to be taken when forecasting the annualised revenue arising from any supplementary rates levied during this time. The forecast will need to be documented and all variables have a reasonable level of science to support them.

Note that if the budgeted rate revenue + forecast annualised supplementary rate revenue exceeds the actual rate income for the year of the calculation of the ‘Base Average Rate’, the Council may not have complied with the rate cap legislation and will invite investigation by the ESC. Councils should consider acting conservatively when forecasting annualised supplementary rate revenue. Where budgeted rate revenue + forecast annualised supplementary rate revenue does not exceed the actual rate income, the difference will be made up the following year when calculating the ‘Base Average Rate’.

Income (excluding rates and grants) and expenses

G12

Further details of items of income (excluding rates and grants) and expenditure are not required to be disclosed by the Act or regulations. However, inclusion is encouraged to give readers a better appreciation of the budgeted financial statements and to further align the budgeted financials to the Model Accounts.

Council is encouraged to provide commentaries on material variances between the budgeted and prior year actual numbers. Commentaries are to be meaningful and clearly indicate the drivers of variances.

The disclosure of fees and charges to be levied for various goods and services provided during the year is optional and is not required by legislation. While not required it is considered best practice to consider the setting of user fees and charges as part of the budget process.

Grants

G13

1. Council must disclose details of all grants received in the period, including:
 - a. type and source
 - b. recurrent and non-recurrent
 - c. operating and capital.
 2. Amounts received through the Victoria Grants Commission funding process are to be disclosed as Commonwealth funded grants.
 3. The regulations define a non-recurrent grant as a 'grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a council's strategic resource plan'. Where Council has a reasonable expectation that funding will continue for a particular activity, amounts are to be classified as recurrent. The determination of whether a grant is operating or capital will be based on the substance of the grant agreement.
 4. Contributions from non-government sources are to be treated as monetary contributions.
- A movement schedule of grants received on the condition that they be expended in a specific manner, that had not been expended at balance date, is to be included in the financial report.

Borrowings**G14**

As required by the Local Government (Planning and Reporting) Regulations 2014, Council must provide in the budget the following information in relation to borrowings:

- in a budget that has not been revised, the total amount to be borrowed during the financial year compared with the previous financial year; or
- in a revised budget, any additional amount to be borrowed compared with the budget or the most recent revised budget (as applicable);

the total amount projected to be redeemed during the financial year compared with the previous financial year.

Capital works program**G15****Purpose of capital works program**

Regulation 10(1)(a) and (b) require that the budget contain a detailed list of capital works expenditure in relation to non-current assets by class according to the Local Government Model Financial Report, classified separately as to asset expenditure type (i.e. renewal, new, upgrade and expansion). The budget must also contain a summary of funding sources in relation to the capital works expenditure, classified separately as to grants, contributions, Council cash and borrowings.

Disclosure

Although not mandated by the regulations, it is suggested that the disclosures should show separately:

- a. New works
- b. Works carried forward from the prior year
- c. Total works to be funded in the current year.

Separating the works carried forward from the prior year provides greater transparency in showing the readers what part of the total works program relates to projects that have previously been budgeted but not yet completed.

In addition, it is recommended that the narrative include details of major projects that are of interest to the user of the budget.

Financial performance indicators**G16**

1. A range of financial indicators can be used to allow the reader to gain a better understanding of key measures such as indebtedness and liquidity which are often hidden when financial information is presented in financial statement format. The use of indicators over a four-year
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horizon also allows trends to be assessed helping the reader to confirm the council's service delivery, infrastructure renewal, rating and debt strategies.

The financial performance indicators included in this model are the prescribed financial performance indicators contained in Part 3 of Schedule 3 of the Regulations. Results against these indicators will be reported in council's performance statement included in the annual report.

The Act and regulations require councils to report actual results against these indicators, together with the other prescribed indicators contained in Schedule 3 of the regulations, in the annual performance statement. After the regulation transition period, the annual performance statement will report the current year results against three preceding years and the forecast results from the financial statements in the Strategic Resource Plan.

2. Definitions for the key components of the indicators are as follows:

- a. **Adjusted underlying result** is the net surplus or deficit for the year (per Australian Accounting Standards) adjusted for non-recurrent grants used to fund capital expenditure, non-monetary asset contributions, and contributions to fund capital expenditure other than grants and non-monetary asset contributions.
 - b. An indicator of the sustainable operating result required to enable Council to continue to provide core services and meet its objectives. Improvement in financial performance expected over the period, although continued losses means reliance on Council's cash reserves or increased debt to maintain services.
 - c. **Working capital** (current assets/current liabilities) is the proportion of current liabilities represented by current assets. It is a general measure of the organisation's liquidity and its ability to meet its commitments as and when they fall due.
 - d. **Unrestricted cash** means all cash and cash equivalents other than restricted cash, including cash that will be used to fund capital expenditure from the previous financial year. Restricted cash means cash and cash equivalents, within the meaning of Accounting Standard AASB 107 Statement of Cash Flows, that are not available for use other than for a purpose for which it is restricted.
 - e. **Loans and borrowings** means interest bearing loans and borrowings compared to rate revenue. The balance of interest bearing loans and borrowings is shown as a percentage of rates revenue. Loans and borrowings also refers to interest and principal repayments compared to rate revenue. The ratio describes Council's cash flow debt repayment capacity through the inclusion of interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue.
 - f. **Indebtedness** compares non-current liabilities to own source revenue. Own source revenue is defined as adjusted underlying revenue other than revenue that is not under the control of Council (including government grants).
 - g. **Asset renewal** is calculated as asset renewal expenditure as a percentage of depreciation. This indicates the extent of Council's renewal of assets against its depreciation charge (an indication of the decline in value of its existing capital assets). A percentage greater than 100 indicates Council is maintaining its existing assets, while a percentage less than 100 means its assets are deteriorating faster than they are being renewed and future capital expenditure will be required to renew assets.
 - h. **Own-source revenue** means adjusted underlying revenue other than revenue that is not under the control of Council (including government grants).
 - i. **Rates concentration** is measured as rate revenue compared to adjusted underlying revenue. Adjusted underlying revenue is defined as total income excluding non-recurrent grants used to fund capital expenditure, non-monetary asset contributions, and contributions to fund capital expenditure from sources other than grants and non-monetary contributions.
 - j. **Rates effort**, which is intended to examine the community's capacity to pay, presents rate revenue as a percentage of the capital improved value of rateable properties in the municipality.
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- k. **Rate revenue** means revenue from general rates, municipal charges, service rates and service charges
 - l. **Expenditure level** is measured as total expenditure per the number of property assessments. It is the residential rate revenue divided by the number of residential property assessments. Rate revenue is defined as revenue from general rates, municipal charges, special rates, special charges, service rates and service charges.
 - m. **Workforce turnover** measures the number of resignations and terminations compared to the average number of staff for the financial year.
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Compliance Checklist

This section lists the items that must be included in the budget in order for it to comply with the requirements of the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*. It is recommended that the compliance checklist be used at the conclusion of budget preparation to ensure compliance with legislative disclosure requirements.

	Requirement	Acts & regs	Model Budget	Yes/No
1.	Financial statements (income statement, balance sheet, changes in equity, cash flows, capital works) in the form set out in the Local Government Model Financial Report	Section 127(2)(a) Regulation 9	Sec 3	
2.	Services and initiatives to be funded in the budget	Section 127(2)(b)	Sec 2	
3.	Statement as to how the services and initiatives will contribute to achieving the strategic objectives specified in the Council Plan	Section 127(2)(c)	Sec 2	
4.	Major initiatives, being initiatives identified by the Council as priorities, to be undertaken during the financial year	Section 127(2)(d)	Sec 2	
5.	For services to be funded in the budget, the prescribed indicators of service performance that are required to be reported against in the performance statement, and the prescribed measures relating to those indicators	Section 127(2) (da)-(db)	Sec 2	
6.	Details of the rates to be declared	Section 158(1)	Sec 4	
7.	Details of differential rates	Section 161(2)	Sec 4	
8.	A detailed list of capital works expenditure in relation to non-current assets classified in accordance with the model statement of capital works in the Local Government Model Financial Report, and set out according to asset expenditure type	Regulation 10(1)(a)	Sec 4	
9.	A summary of the funding sources in relation to the capital works expenditure, classified separately as to grants, contributions, Council cash and borrowings	Regulation 10(1)(b)	Sec 4	
10.	A statement of human resources	Regulation 10(1)(c)	Sec 3	
11.	A summary of human resources expenditure and the number of full time equivalent Council staff referred to in the statement of human resources, categorised according to the organisational structure of the Council and classified separately as to permanent full time or permanent part time	Regulation 10(1)(d) & (e)	Sec 3	
12.	A list of grants by type and source, classified as recurrent grants to be used to fund operating expenditure and capital expenditure, and nonrecurrent grants to be used to fund operating and capital expenditure	Regulation 10(1)(f)	Sec 4	
13.	Total amount borrowed as at 30 June of the financial year compared with the previous financial year	Regulation 10(1)(g)	Sec 4	
14.	Total amount to be borrowed during the financial year compared with the previous financial year	Regulation 10(1)(h)(i)	Sec 4	
15.	Total amount projected to be redeemed during the financial year	Regulation 10(1)(i)	Sec 4	

	Requirement	Acts & regs	Model Budget	Yes/No
	compared with the previous financial year			
16.	Rate in the dollar for each type or class of land	Regulation 10(2)(a)	Sec 4	
17.	Percentage change in the rate in the dollar for each class or type of land compared with the previous financial year	Regulation 10(2)(b)	Sec 4	
18.	Estimated amount to be raised by general rates in relation to each type or class of land compared with the previous financial year	Regulation 10(2)(c)	Sec 4	
19.	Estimated total amount to be raised by general rates compared with the previous financial year	Regulation 10(2)(d)	Sec 4	
20.	Number of assessments for each class or type of land compared with the previous financial year	Regulation 10(2)(e)	Sec 4	
21.	Number of assessments compared with the previous financial year	Regulation 10(2)(f)	Sec 4	
22.	Basis of valuation to be used	Regulation 10(2)(g)	Sec 4	
23.	Estimated value of each type or class of land compared with the previous financial year	Regulation 10(2)(h)	Sec 4	
24.	Estimated total value of land rated compared with the previous financial year	Regulation 10(2)(i)	Sec 4	
25.	Municipal charge compared with the previous financial year	Regulation 10(2)(j)	Sec 4	
26.	Percentage change in the municipal charge compared with the previous financial year	Regulation 10(2)(k)	Sec 4	
27.	Estimated amount to be raised by municipal charges compared with the previous financial year	Regulation 10(2)(l)	Sec 4	
28.	Rate or unit amount to be levied for each type of service rate or charge compared with the previous financial year	Regulation 10(2)(m)	Sec 4	
29.	Percentage change for each type of service rate or charge compared with the previous financial year	Regulation 10(2)(n)	Sec 4	
30.	Estimated amount to be raised by each type of service rate or charge compared with the previous financial year	Regulation 10(2)(o)	Sec 4	
31.	Estimated total amount to be raised by service rates and charges compared with the previous financial year	Regulation 10(2)(p)	Sec 4	
32.	Estimated total amount to be raised by all rates and charges compared with the previous financial year	Regulation 10(2)(q)	Sec 4	
33.	Any significant changes that may affect the estimated amounts referred to in Regulation 10(2)	Regulation 10(2)(r)	Sec 4	
34.	Councils applying to the Essential Services Commission for a rates variation must meet disclosure requirements	Local Government Amendment (Fair Go Rates) Act 2015	Sec 4	

Glossary

Act	means the <i>Local Government Act 1989</i>
Annual report	means a report of the council's operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement
Australian Accounting Standards (AAS)	means the accounting standards published by the Australian Accounting Standards Board
Better practice	means that in the absence of legislation or a relevant Australian Accounting Standard this commentary is considered by Local Government Victoria to reflect better practice reporting
Budget	means a plan setting out the services and initiatives to be funded for the financial year and how they will contribute to achieving the strategic objectives specified in the council plan
Council plan	means a plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting vision and aspirations of the community for the next four years
Financial statements	means the financial statements and notes prepared in accordance with the <i>Local Government Model Financial Report</i> , Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and statement of capital works, included in the annual report
Financial year	means the period of 12 months ending on 30 June each year
Heritage asset	means an asset with historic, artistic, scientific, technological, geographical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it
Minister	means the Minister for Local Government
Performance statement	means a statement including the results of the prescribed service outcome indicators, financial performance indicators and sustainable capacity indicators for the financial year and included in the annual report
Planning and accountability framework	means the key statutory planning and reporting documents that are required to be prepared by councils to ensure accountability to local communities in the performance of functions and exercise of powers under the Act
Principal accounting officer	means the person designated by a council to be responsible for the financial management of the council
Regulations	means the <i>Local Government (Planning and Reporting) Regulations 2014</i>
Report of operations	means a report containing a description of the operations of the council during

Specialised assets

the financial year and included in the annual report

means assets designed for a specific limited purpose. Specialised assets include buildings such as schools, hospitals, court houses, emergency services buildings (police, fire, ambulance and emergency services), specialised buildings to house infrastructure (pump stations, etc.), some heritage properties and most infrastructure assets

Strategic resource plan

means a plan of the financial and non-financial resources for at least the next four years required to achieve the strategic objectives in the council plan. Is also referred to as the long term financial plan.

References

Chartered Accountants in Australia and New Zealand (2017), *Victorian City Council Model Budget 2017-2018*, <https://www.finpro.org.au/2017/02/model-budget-201718/>

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