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Policy Statement/Objectives

The purpose of this Budgetary Framework Policy for Kiama Municipal Council (“Council”, “we”, “us”) is to define guidelines for Council’s management and staff on the formulation, adoption, review, and reporting of annual planning and reporting activities.

This Policy is being implemented to ensure that Council’s management and staff can appropriately remediate financial performance and outputs.

The key objectives of this Policy are to:

- Define a clear framework that can be consistently applied by Council’s management and staff when formulating, adopting, reviewing, and reporting on the Long-Term Financial Plan, Operational Plan, and Annual Budget Report.
- Set out governing principles regarding the following major components of the budget:
 - Operating income
 - Operating expenses
 - Capital budget
 - Loan repayments
 - Reserve transactions
- Provide direction to Council’s management on the application of annual planning and reporting activities to guide decision-making and maximise Council’s financial performance.

The policy supports sound financial management and is a key factor in ensuring Council’s long-term financial sustainability through the regular and systematic review and reporting of budget performance.

Scope

This Policy covers the following scope of annual planning and reporting activities, pertaining specifically to the responsibilities of Council’s Finance team:

- Long-Term Financial Plan (“LTFP”)
- Delivery Program and Operational Plan (“DPOP”) elements including annual budget, fees and charges and revenue policy
- Quarterly Budget Reviews

This Policy applies to Council's management and staff when engaging in annual planning and reporting activities as set out in the scope above.

References

- Integrated Planning and Reporting (IP&R) Guidelines
- Local Government Amendment (Governance and Planning) Act 2016
- Local Government Act 1993 (the Act)
- Local Government (General) Regulation 2021 (the Regulation)
- Quarterly Budget Review Statement for NSW Local Government
- Kiama Council Budgetary Framework Procedure
- Kiama Council Enterprise Risk Management Policy

Consultations

- Finance Advisory Committee
- Executive Leadership Team
- Finance Team

Variation and review

The review and maintenance of this Policy is the responsibility of Council's Chief Financial Officer (CFO), supported by consultation with Council's management and staff as required.

Council's CFO will review this Policy **once every 3 years** ("minimum review period"), with a view to update any outdated Policy elements prior to the commencement of planning and reporting activities covered by this Policy.

Council reserves the right to review, vary or revoke this Policy at its discretion within or outside the minimum review period.

Review history

Date reviewed	Date adopted / endorsed	Brief detail of amendments
New policy		

POLICY

1. General principles

1.1. Roles and responsibilities

Specific roles and responsibilities pertaining to the development and maintenance of this Policy is set out below using the RACI matrix. Where these delegations change prior to the minimum review period as set out in the section above, Council's CFO is ultimately responsible for ensuring that the Policy is updated accordingly.

Responsible	Who is responsible for completing a task, achieve the objective, and/or make decisions?	Directors Managers
Accountable	Who is the owner of the task? Who should approve the outcomes of a task, including assigning responsibility?	Operational Budget: CFO and Management Accountants Capital Budget: Director of Infrastructure & Liveability CEO and ELT (for ultimate approval of any increases / decreases to budgets)
Consulted	Who should be consulted in the process as active contributors?	Financial Advisory Committee CEO and COO Councillors Members of the Public
Informed	Who should be updated on a regular basis on the progress of the work and decisions made?	Employees Members of the Public Councillors Financial Advisory Committee

1.2. Risk management framework

Council will refer to the Enterprise Risk Management (“ERM”) Policy in applying the appropriate risk and governance controls over its Annual Planning activities. Where the ERM Policy changes within Council, Council’s CFO is responsible for ensuring that the risk management framework for Annual Budget activities is updated accordingly.

The risk management procedure has been set out within the Budgetary Framework Procedure.

2. Long-Term Financial Plan

Council must prepare and adopt a LTFP as part of the Resourcing Strategy requirement under the IP&R framework. Council must post a copy of the adopted components of the Strategy on its website.

2.1. Purpose

The LTFP must be used to inform decision-making during the preparation and finalisation of the Community Strategic Plan and the development of the DPOP.

2.2. Key considerations

The development of the LTFP must be completed with consideration given to the following financial sustainability elements within Council:

- Progressive elimination of operating deficits
- Establishment of a clear revenue path for all rates linked to expenditure proposals
- Ensuring that any proposed increase in services and/or assets is within financial means of Council including a special rate variation
- Ensuring that adequate funding provisions are made available for infrastructure maintenance and renewal

- Ensuring that borrowings are used only where appropriate and reflective of financially responsible outputs
- Creating a fair and equitable distribution of rate burden across all rate payers

2.3. Timeframe of Plan

The minimum legislated timeframe for the LTFP is **10 years**.

2.4. Variation and review

The LTFP must be reviewed in accordance with the guidelines set out in the IP&R framework.

The key underlying assumptions pertaining to projected income and expenses, balance sheet and cash flow statement contained in the Plan must be reviewed and updated at least once each year, as part of developing the DPOP.

The Plan must be reviewed in detail **once every 4 years**, as part of the Community Strategic Plan review.

2.5. Structure

The LTFP must include (at minimum) the following elements:

- Projected income and expenditure
- Balance sheet and cash flow statement
- Planning Assumptions Statement
- Sensitivity analysis highlighting factors/assumptions most likely to impact the Plan
- Financial modelling for different scenarios; and (but not limited to)
- Methods of monitoring financial performance

2.6. Exhibition requirements

The LTFP must be publicly exhibited for **at least 28 days**. Where submissions are received by Council in that period, they must be accepted and considered before adoption of the LTFP by Council.

3. Operational Plan

Council must prepare and adopt an Operational Plan under the IP&R framework. The Operational Plan must be adopted before the beginning of each financial year.

3.1. Purpose

The Operational Plan must detail the activities and actions to be undertaken by Council during that financial year to achieve the commitments made within the Delivery Program.

3.2. Timeframe of Plan

The Operational Plan must be prepared each year for the incoming financial year.

3.3. Variation and review

The Operational Plan must be reviewed and updated **each year** for the incoming financial year, in accordance with the guidelines set out in the IP&R framework.

3.4. Structure

The Operational Plan must include (at minimum) the following elements:

- (a) Details of work that will be done in support of the Delivery Program, including identifying projects, programs or actions that Council will undertake within the financial year towards addressing these.
- (b) Allocation of responsibilities for each project, program or action.
- (c) Specification of each review to be undertaken in that year pertaining to service reviews identified in the Delivery Program.
- (d) Identification of suitable measures to determine effectiveness of the projects, programs and actions undertaken.
- (e) Detailed budget for the actions to be undertaken in that year.
- (f) Council's Statement of Revenue policy for the year covered by the Plan.
- (g) Statement of Revenue must include the following elements:
 - Statement containing a detailed estimate of Council's income and expenditure
 - Statement for each ordinary rate and each special rate proposed to be levied
 - Statement for each charge proposed to be levied
 - Statement of the types of fees proposed to be charged by Council – where the fee is linked to Division 3 of Part 10 of Chapter 15 of the Act, the amount of such fee must also be included
 - Statement of Council's proposed pricing methodology for determining the prices of goods and the approved fees under Division 2 of Part 10 of Chapter 15 of the Act for services provided by it, being an avoidable costs pricing methodology determined by the council
 - Statement of the amounts of any proposed borrowings (other than internal borrowing), the sources from which they are proposed to be borrowed and the means by which they are proposed to be secured
- (h) Statement of Revenue Policy with respect to an ordinary or special rate proposed to be levied must include the following particulars:
 - Ad valorem amount, i.e. amount in the dollar, of the rate
 - Whether the rate is to have a base amount and if so, the amount in dollars of the base amount and the percentage of total amount payable by levying of the rate or, in the case of the rate, rate for the category or sub-category concerned of the ordinary rate that the levying of the base amount will produce
 - Estimated yield of the rate
 - Where there is a special rate, the purpose for which the rate is so to be levied
 - Categories or sub-categories of land in respect of which Council is proposing to levy the rate
- (i) Statement of each charge proposed to be levied must include the following particulars:
 - Amount or rate per unit of the charge
 - Differing amounts for the charge (if applicable)
 - Minimum amount or amounts of the charge (if applicable)
 - Estimated yield of the charge
 - Where there is an annual charge for the provision by Council of coastal protection services (if applicable), a map, list, or both, of the parcels of rateable land that are subject to the charge

- (j) Statement of fees and statement of pricing methodology must not include information that could provide commercial advantage to a competitor of Council.

3.5. Exhibition requirements

The draft Operational Plan must be publicly exhibited for **at least 28 days**. Where submissions are received by Council in that period, they must be accepted and considered before adoption of the Operational Plan by Council.

Council must publish a copy of the Operational Plan on its website **within 28 days** after adoption.

Council must display on its website a map showing those parts of the local government area to which the various rates will apply, including each category and sub-category of the ordinary rate and each special rate included in the Operational Plan. The map must also be made available in Council's office for public inspection during exhibition of the Operational Plan.

Where significant amendments are proposed to the Operational Plan, it must be re-submitted to Council for adoption.

4. Quarterly Budget Review

Council must complete a Quarterly Budget Review (QBR) under the IP&R framework. The QBR output is a Quarterly Budget Review Statement (QBRS) which presents a summary of Council's financial position at the end of each quarter.

4.1. Purpose

The QBRS provides Council the opportunity to review its financial health during the year, ensuring that it is on track to meet its objectives, targets and outcomes set out in its Operational Plan.

The QBRS also drives transparency of financial decision-making by Council, ensuring Council is acting in alignment with the commitment it has made to the community in the Community Strategic Plan.

4.2. Key considerations

The QBRS must consider (at minimum) the following objectives and outcomes for Council:

- Ability for Councillors and the community to see how Council is tracking against the original Operational Plan
- Provide sufficient information to alert Councillors to any issues (current or potential) that may impact Council's ability to meet desired financial targets, agreed strategies, and/or objectives and outcomes set out in the Operational Plan
- Consideration from Councillors on the long term and cumulative effectiveness of its decisions, including considering how the decisions will impact Council's ability to achieve its objectives and targets outlined in the Operational Plan
- For recommended changes to be included in the budget, ensure that they are considered and adopted by Council
- For requests for additional information from Councillors upon submission of the QBRS, ensure that Council management and staff are provided information about correct processes to be followed to submit requests

4.3. Timeframe of QBR

The QBRS must be completed at the end of each quarter, no later than 2 months after quarter-end.

Council may choose to report on financial performance more frequently (e.g. monthly).

4.4. Structure

The QBRS must include (at minimum) the following elements:

- (a) Statement by the responsible accounting officer on Council's financial position at the end of the year based on the information in the QBRS. The purpose of the statement is to confirm whether the responsible accounting officer believes that the QBRS is satisfactorily reflective of Council's financial position, having consideration of the original estimate of income and expenditure.
- (b) Budget Review Income and Expenses Statement in a consolidated, by fund or by function / activity / program format with the Operational Plan. The revised estimated income and expenditure for the year must be shown against the original estimate as per the Operational Plan and should also include recommendations by Council officers regarding changes to the revised budget to give a projected year-end result.
- (c) Budget Review Capital Budget.
- (d) Budget Review Cash and Investments position.
- (e) Budget Review Key Performance Indicators.
- (f) Budget Review Contracts and Other Expenses.
- (g) Minimum requirements templates are made available in the Quarterly Budget Review Statement for NSW Local Government guidelines which should be used by Council to prepare the QBRS, ensuring that all minimum reporting requirements are met. It is expected that the templates will form part of the reports provided to Councillors.
- (h) The QBRS must be written in plain English and in a style that is easily understandable for non-financial users, ensuring transparency in decision-making.

For further details about the budget review elements, Council's management and staff should refer to the **Quarterly Budget Review Statement for NSW Local Government** included in the attachments with this Policy.

4.5. Reporting on budget variations (actuals vs. adopted budget)

QBRS will provide explanations for material deviations from adopted budget.

Materiality is defined by considering both the size and nature in compliance with the AASB Practice Statement 2.

The Framework for the Preparation and Presentation of Financial Statements as identified in AASB 1048 Interpretation of Standards (the Framework) provides the following definition of material information:

- Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.
- When making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements when they make decisions on the basis of those statements.
- Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.

Identifying material budget variations, both Quantitative and Qualitative factors will be considered.

4.5.1. Quantitative factors

For variances to be considered material one of the following requirements must be satisfied:

Percentage threshold	Amount threshold	Disclosure requirement
Less than 10%	Less than \$200,000	No disclosure required
Greater than 10%	Less than \$200,000	Qualitative facts to be considered regarding the nature of transactions
Less than 10%	Greater than \$200,000	Qualitative facts to be considered regarding the nature of transactions
Greater than 10%	Greater than \$200,000	Disclosure required

A proposed percentage threshold of 10% aligns with the standard outlined in section B5-1 of the General Purpose Financial Statements, complying with The Code set by the OLG.

The proposed threshold amount of \$200,000 is based on Council’s established norms in the budget analysis process and is 1% of annual rates revenue.

4.5.2. Qualitative Factors

Qualitative factors are characteristics of an entity’s transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity’s financial statements.

The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users’ interest in that information.

In making materiality judgements, an entity considers both entity-specific and external qualitative factors.

An entity-specific qualitative factor is a characteristic of the entity’s transaction, other event or condition. Examples of such factors include, but are not limited to:

- uncommon, or non-standard, features of a transaction or other event or condition; or
- unexpected variation or unexpected changes in trends.

In some circumstances, the entity might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.

Management will apply judgement and consider both qualitative and quantitative factors and will consider a nature of variance when assessing materiality, typically variances between 5-10% will be fully explained in QBRS.

Commentary in respect of material budget variations – particularly operational budgets – are to indicate whether variations are of a one-off nature or permanent in nature. Commentary should include the cause, consequences and corrective actions to be taken (if applicable) in relation to unfavourable budget variations. This is required to assist in updating Council’s Long-Term Financial Plan.

Council will use variance reporting within the QBRS to provide information (based on cumulative impacts from all previous approved quarters) to users of the budget on the recommended changes to the budget and any flow on effect that the change might have on Council’s ability to meet its objectives, commitments and strategies as outlined in the Operational Plan. The reporting must also identify any impacts to Council’s DPOP.

4.6. Budget adjustments

QBRS must include all proposed budget adjustments. Explanations must include the purpose of the adjustment and the funding source if additional budget is requested.

If unfavourable budget adjustment is proposed, a clear explanation of the reason for the adjustment is required along with the short-term and long-term implications, if material. Council will seek budget reductions in other areas to offset unfavourable budget adjustments. If unfavourable budget adjustment is material and no savings could be identified (e.g. unrecoverable expenses outside of Council control), Council will consider funding of these expenses via internal reserves. If no funding can be allocated, unfavourable budget adjustments will impact unrestricted cash movement for the year, and as a result, will have long-term implications on Council's overall performance. This will need to be clearly disclosed in QBRS.

Council may cross-reference explanations for adjustments between statements to avoid duplication.

Where recommended adjustments are determined to be major or material, they should also include impact on Council's financial strategies as well as any foreseeable impacts on Council's management and strategic plans, financial position, and objectives (including impacts to Delivery Program). If impacts are projected, they must be clearly identified and explained in detail.

4.7. Year End Carrying forward budgeted expenditure into future budgets

At year end QBR4 will include year-end carry-forwards and proposed revotes.

Budgets to be carried-forward into the next financial year will be summarised in QBRS and will include budgeted in relation to:

- Capital works being carried out or works contracted to be carried out prior to financial year-end
- Any services being carried out or contracted to be carried out prior to financial year-end
- Goods or materials provided or contracted to be provided prior to financial year-end; and/or
- Facilities provided or contracted to be provided before the term of office of the Council ends

Where there is unused and uncommitted budgeted expenditure at the end of the financial year, management will prepare a recommendation to Council identifying those items that will need to be re-voted into the next financial period.

5. Emergency events

If an emergency event occurs due to an unexpected or unforeseen event such as storm, flood, fire or earthquake that results in urgent works to be undertaken to make safe, broken or damaged property, equipment or services, the CEO is authorised to make such expenditure within the limits of their financial delegations. CFO should be notified/consulted when possible.

As soon as practicable, a report must be prepared and submitted to the next Council meeting, providing details of the event and the expenditure incurred.

Related forms/Documents

- Budgetary Framework Procedure

Attachments

- Quarterly Budget Review Statement for NSW Local Government

Authorisation

Name: Title of person authorising OR ELT OR Council Resolution No: ****

Date: Date endorsed by ELT or adopted by Council

Quarterly Budget Review Statement
for
NSW Local Government



Division of Local Government
NSW Department of Premier and Cabinet

December 2010

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1. Introduction

A new planning and reporting framework for NSW Local Government has been introduced with a greater focus on sustainability. The new Integrated Planning and Reporting (IP&R) framework is being implemented over a period of three years.

The IP&R framework requires councils to undertake appropriate community consultation to agree to a strategic approach, manage their assets more effectively and work towards a more financially sustainable future. It is therefore important that financial information made available to councillors is sufficient for them to make informed decisions on matters likely to impact council's financial position and to meet its obligations under the management plan / operational plan.

In reviewing councils' quarterly budget review reports, the Division of Local Government (the Division) has noted that the format and content of budget review statements varies significantly from one council to the next.

A quarterly budget review should act as a barometer of council's financial health during the year. It needs to adequately disclose council's overall financial position, provide sufficient information to enable informed decision making while ensuring transparency in decision making. It is also a means by which councillors can ensure that council remains on track to meet its objectives, targets and outcomes as set out in its management plan / operational plan.

The Division has developed a set of minimum requirements and sample templates that will assist councils in meeting their obligations as set out in legislation. The templates will facilitate progress reporting against the original and revised annual budgets at the end of a quarter. They will also provide explanations for major variations that result in recommendations for budget changes and enable the responsible accounting officer (RAO) to indicate if council will be in a satisfactory financial position at the end of the financial year, given the changes to the original budgeted position.

Collectively, these documents will be known as the quarterly budget review statement (QBRS) and will be reported to council in accordance with the relevant legislation at the end of each quarter. The QBRS requirements contained in this document are minimum requirements and councils may incorporate them into an existing reporting format.

The minimum requirements for the QBRS will be included in the *Code of Accounting Practice and Financial Reporting* (the Code) and form part of the legislative framework in accordance with clause 203(3) of the Regulations.

2. Overview

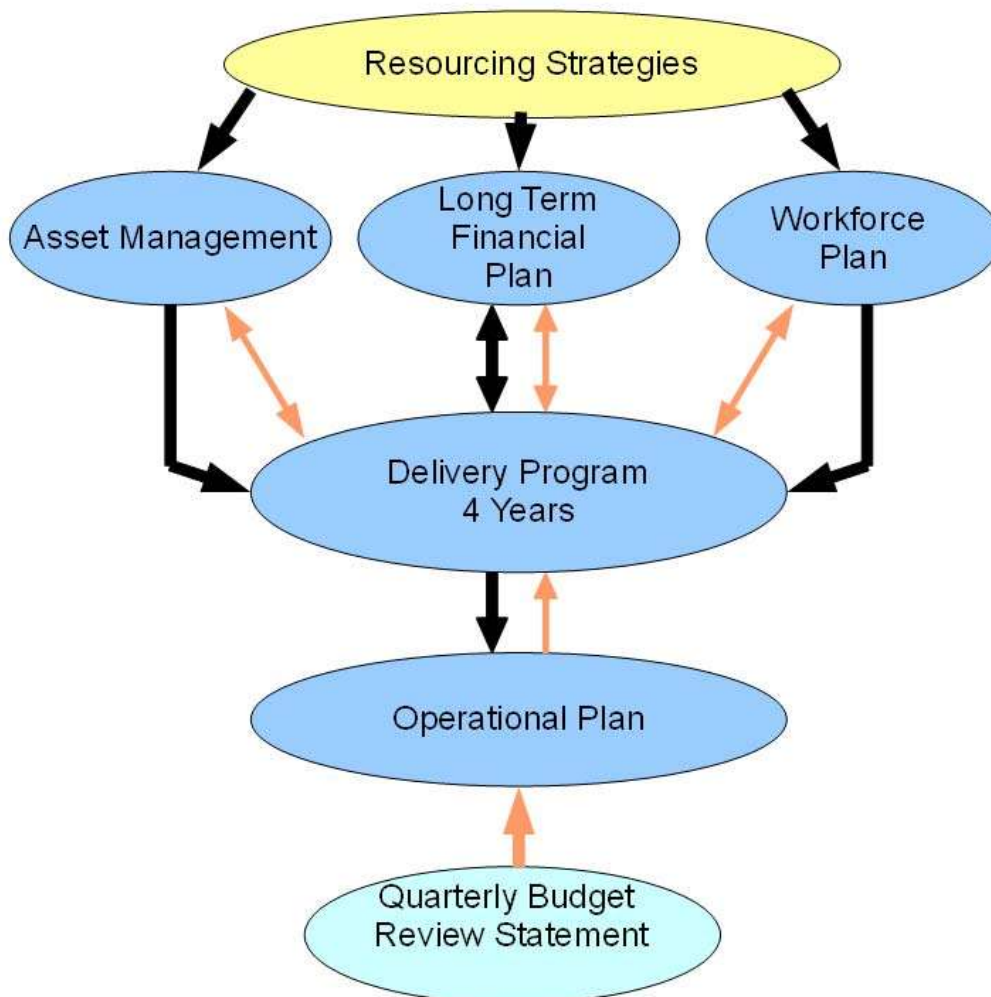
Clause 203(1) of the *Local Government (General) Regulation 2005* (the Regulations) requires a council's responsible accounting officer to prepare and submit a quarterly budget review statement to the governing body of council. The quarterly budget review statement must show, by reference to the estimated income and expenditure that is set out in the management plan or operational plan adopted by council for the relevant year, a revised estimate of income and expenditure for that year.

It also requires the budget review statement to include a report by the responsible accounting officer as to whether or not they consider the statement indicates council to be in a satisfactory financial position (with regard to its original budget) and if not, to include recommendations for remedial action.

Legislative requirements together with the implementation of a formal reporting mechanism will ensure that councils have a robust and transparent budget reporting framework.

Council's management plan or operational plan sets out the achievements, goals and revenue policy, including estimates of income and expenditure. The quarterly budget review statement (QBRS) will play an important role in monitoring council's progress against the plan and the ongoing management of council's annual budget.

The following diagram shows the relationship of the QBRS to the operational plan within the integrated planning and reporting framework.



Key:

→ black arrows – IP&R relationships

→ orange arrows – QBRS relationships

Diagram 1 – Integrated Planning & Reporting Framework showing relationship with QBRS

The development of a standard set of budget review statements will assist each council in meeting its charter with regard to its finances and related responsibilities in respect of its management plan / operational plan.

It is expected that council's quarterly budget review statement will:

- provide fair and reasonable information to councillors and the community in respect to the budget;
- report on the impacts of any recommended changes with respect to the management plan / operational plan, including potential impacts on goals, objectives and strategies contained in the plan and the delivery program; and,
- indicate how council is tracking against its original budget as set out in its management plan / operational plan.

The benefits to councillors include:

- a consistent approach to budget review;
- an overall understanding of the projected year end results and reasons for any major variances against the original plan; and,
- an ability to make decisions regarding budget changes in full knowledge of any implications on the management plan / operational plan, council's expected financial position as well as any possible impact on the delivery program.

While the QBRS forms part of the initiative to improve reporting through integration, all councils are subject to these requirements regardless of where they are in respect to implementing IP&R.

3. Budgetary framework

With the introduction of IP&R, changes have been made to the *Local Government Act 1993* (the Act) and the *Local Government (General) Regulation 2005* (the Regulations). The *Local Government Amendment (Planning and Reporting) Act 2009* includes transition arrangements in Schedule 8 (Part 31) for the staged implementation. The Act and Regulations, prior to the enactment of the 2009 Amendment Bill¹ and Amendment Regulation² will remain in force for councils until they are implementing IP&R in accordance with the transitional arrangements.

The transitional arrangements in Schedule 8(95) of the amended Act state that councils must comply with the new strategic planning provisions. That is, they must endorse a community strategic plan and adopt a resourcing strategy, delivery program and first operational plan in accordance with the following timetable:

- Group 1 – by 30 June 2010
- Group 2 – by 30 June 2011

¹ Local Government Amendment (Planning and Reporting) Bill 2009

² Local Government (General) Amendment (Planning and Reporting) Regulation 2009 under the Local Government Act 1993

- Group 3 – by 30 June 2012

The legislative framework which incorporates aspects of budgeting and reporting requirements for councils is set out in Table 1.

To address the varying requirements and legislation that are dependent on the transitional arrangements, the table shows each requirement along with the related legislative reference for councils implementing IP&R as well as those that are yet to implement the IP&R framework.

Section references e.g. S402, refers to a section in the *Local Government Act 1993* while clause references e.g. CI 203 refers to a clause within the *Local Government (General) Regulation 2005*.

Table 1 - Legislative Framework

Legislative Requirements	Reference Legislation prior to 2009 amending Legislation*	Reference 2009 Amended Legislation**
Community Strategic Plan		S402
Resourcing Strategy	n/a	S403
Delivery Program		S404
Operational Plan		S405
IP&R guidelines		S406
Council to prepare: <ul style="list-style-type: none"> ○ Draft management plan or ○ Community strategic plan (over 10 years and integrated with asset management and long term financial plans.) 	S402 – S403	n/a
Council to adopt an operational plan prior to beginning of the financial year.	n/a	S405
Operational plan to include: Statement of council's revenue policy and details as stated in the Regulations (detailed estimate of council's income and expenditure).	n/a	CI 201(1)(a)
Specific information with respect <ul style="list-style-type: none"> ○ council's revenue policy, ○ detailed estimate of council's income and expenditure (among other things). 	S404(1) in draft management plan	CI 201(1) in operational plan CI 201(1)(a)

Legislative Requirements	Reference Legislation prior to 2009 amending Legislation*	Reference 2009 Amended Legislation**
<p>Prepare detailed annual budget on an accrual basis in accordance with the Code.</p> <ul style="list-style-type: none"> ○ Income statement ○ Note 2a ○ Capital Budget <p>These budgets are to be presented to the council prior to commencement of a new financial year (1 July).</p> <p>At the end of the financial year the income and expenditure budget result must be compared to the actual result reported in Council's financial statements with variances reported to council at the meeting at which the financial reports are considered.</p>	Code of Accounting Practice and Financial Reporting	
<p>Responsible accounting officer to:</p> <ul style="list-style-type: none"> ○ establish and maintain a system of budgetary control 	CI 202(a)	
<p>Monthly, responsible accounting officer to:</p> <ul style="list-style-type: none"> ○ monitor and compare actual income and expenditure with the estimate of council's income and expenditure ○ report any material variances to council at its next meeting 	CI 202(a)&(b)	
<p>Quarterly, not later than 2 months after the end of each quarter:</p> <p>Responsible accounting officer to submit to council a budget review statement which includes:</p> <ul style="list-style-type: none"> ○ the revised estimate of expenditure and revenue for the year by reference to the original estimates set out in the management plan / operational plan, ○ a report to council re view of financial position having regard to original estimates. If unsatisfactory, recommended remedial action. ○ any information required by the Code (i.e. the new quarterly budget review reporting requirements – QBRS documents). 	CI 203(1) (management plan) CI 203(2) CI 203(3)	(except June quarter) CI 203(1) (operational plan) CI 203(2) CI 203(3)

Notes:

* Legislation in force until council implements IP&R in accordance with transitional arrangements (Schedule 8 – Part 31(95) of the amended Act).

** Legislation in force for councils when implementing IP&R in accordance with transitional arrangements.

4. Quarterly Budget Review Statement (QBRS)

The QBRS presents a summary of council's financial position at the end of each quarter. It is the mechanism whereby councillors and the community are informed of council's progress against the management plan / operational plan (original budget) and the last revised budget along with recommended changes and reasons for major variances.

The QBRS is composed of, but not limited to, the following budget review (BR) components:

- Statement by the responsible accounting officer on council's financial position at the end of the year based on the information in the QBRS;

- Budget Review Income and Expenses Statement in one of the following formats:
 - Consolidated
 - by fund (e.g. General Fund; Water Fund; Sewer Fund)
 - by function, activity, program etc to align with the management plan / operational plan;
- Budget Review Capital Budget;
- Budget Review Cash and Investments position;
- Budget Review Key Performance Indicators; and,
- Budget Review Contracts and Other Expenses

The QBRS will show the revised estimated income and expenditure for the year against the original estimate of annual income and expenditure as shown in the management plan / operational plan and will include recommendations by council officers regarding changes to the revised budget to give a projected year end result.

The inclusion of the original budget in the QBRS statements will enable councillors and the community to see how council is tracking against the original plan. It is also a requirement of clause 203(1) of the Regulations. The QBRS should provide sufficient information to alert councillors to any issues or potential problems that may impact its ability to achieve stated financial targets, agreed strategies, objectives and outcomes that are set out in the management plan / operational plan and delivery program and to maintain its targeted financial position.

Sample templates for each of the documents making up the QBRS are included in the appendices at the end of this document. The template documents contain the minimum reporting requirements however, it is recognised that council will have its own reporting style. Provided that the minimum requirements for reporting are met, council may choose to present the information as part of its existing report. For example, where council currently prepares a document to report on variances and recommended budget changes, the statements may be incorporated into that report or attached as appendices to support the detail in the existing report. In the latter case the variance reporting would not be included on each statement and therefore it would be necessary to cross reference the detail to the relevant statement.

The minimum requirements are shown in the templates by way of black type (normal font) while sample data is shown in grey italics.

Recommended changes are changes to the last approved budget being either the original budget in the first quarter review or the last revised budget. In the QBRS reports, the recommended changes are added to the last revised budget to reflect the 'projected year end result'. For recommended changes to be included in the budget they must be considered and adopted by council.

In accordance with council's charter at section 8 of the Act, councillors need to have regard for the long term and cumulative effects of its decisions, so it is therefore important to understand the impacts of any significant changes that are proposed, including anything that will impact council's ability to achieve its

objectives and targets outlined in the management plan / operational plan or delivery program.

4.1 Responsible Accounting Officer's Statement

The Regulations require that a budget review statement must include or be accompanied by a report as to whether or not the responsible accounting officer (RAO) believes that the QBRS indicates that council's financial position is satisfactory, having regard to the original estimate of income and expenditure. If council's financial position is considered by the responsible accounting officer to be unsatisfactory, then recommendations for remedial action must be included.

The adopted management plan / operational plan incorporates council's adopted budget. It assumes particular objectives, strategies and targets, including its intended financial position, by the end of the financial year. The purpose of the RAO considering council's financial position with regard to the original estimate of income and expenditure (original budget) is to assess whether or not council's projected year end result as at the end of each quarter has any likely impact on council's estimated financial position as determined in its management plan / operational plan. The RAO is therefore making a professional judgement based on the impact of proposed or approved changes to the original annual budget on council's budgeted financial position.

In accordance with the Regulations, the RAO statement (refer Appendix 1) may be incorporated into one of the other documents forming the QBRS. If council chooses to incorporate the statement into its review report rather than present it as a separate statement, then it must be clearly visible on the document and include the responsible accounting officer's signature and the date on which the statement was made.

4.2 Reporting on budget variances / recommended changes

Over the period of the budget year, council has an opportunity to review and approve variances to the original budget. These variances are generally recommended as part of council's quarterly budget review process.

Any change to the budget must be approved by council and councillors need to be aware that by resolving to accept the QBRS, they are approving the changes as proposed. It is therefore important that councillors understand the impact of any recommended changes and take into account the cumulative impact of quarterly budget revisions. To determine the impact of these cumulative revisions on the original budget, the statements will include all approved changes to the budget in previous quarters.

Variance reporting will provide sufficient information to give an understanding of the reasons for recommended changes to the budget and any flow on effect that the change might have on council's ability to meet its objectives, commitments and strategies outlined in the management plan / operational plan. Any potential impacts on council's delivery program will also be identified.

Within each of the statements forming the QBRS, reasons for recommended changes (variances) to the budget for substantial or major variances are required. However explanations may be cross referenced between statements to avoid duplication. Council should determine the parameters for what constitutes a 'substantial' or 'major' variation as it would not be feasible to explain all variations.

Any recommended change to the budget that is considered to be 'major' should also include confirmation that the budget variation will not impact council's financial strategies as well as detail any anticipated impacts on council's management and strategic plans, financial position and objectives. This includes any potential impact on the delivery program which includes plans, projects, activities and funding allocations to meet the community's long-term goals.

In many cases, the recommended changes to the budget will be movements of funds across the functions or activities of council and will not impact the 'bottom line'. Where variations to the budget result in a change to the overall budget, an explanation must be given as to the reason for this and the impact on council's targeted financial position.

4.3 Income & Expenses Budget Review Statement

Under the Regulations councils are required to prepare a budget review statement that "*shows, by reference to the estimate of income and expenditure set out in the management plan (or operational plan) that council has adopted for the relevant year*", a revised estimate of income and expenditure. The income and expenses statement(s) reported in the QBRS will therefore cover all estimated income and expenses detailed in council's management plan / operational plan, remembering that the original budget was developed on an accrual basis.

The income & expenses statement should therefore be presented in a format that best represents the estimated income and expenditure included in its management plan / operational plan thus enabling councillors and the community to readily relate the information to the plan. For this reason, the QBRS guidelines do not prescribe the level of reporting, but provide examples of different reporting levels. Income and expenses budget review statements will include the following minimum requirements:

- Original budget (as per management plan / operational plan)
- Revised budget (last council approved budget)
- Approved changes to the budget in previous quarters
- Projected year end result
- Actual YTD data (including accruals e.g. depreciation)
- Recommended changes (variations between the revised budget and projected year end result)
- Explanation for material variations between the revised budget and projected year end result and likely impacts of the variation / recommended change (refer 4.2 above)
- Total Income (original, revised and projected year end result)
- Total Expenses (original, revised and projected year end result)
- Net Operating Result from continuing operations (original, revised and projected year end result)
- Net Operating Result before capital items (original, revised and projected year end result)

- A full explanation of any variance between the original budget and projected year end result for net operating results (before and after capital items).

Council may include any other additional information it considers appropriate.

Appendix 2 refers.

4.4 Capital Budget Review Statement

A capital budget sets out council's intention with regards to capital works programs and includes planned purchase and disposal of council land, facilities and major equipment. The budget should identify those capital items for purchase or disposal and planned capital works. The budget should also include capital funding sources.

The capital budget review statement should inform the reader as to whether council's capital works program is on track to deliver the projects outlined in its management plan / operational plan. Where council currently receives detailed reports on capital projects and capital works, the Capital Budget Review statement may be a high level, summary report.

The statement will align with the level of reporting used in the Income and Expenses Budget Review statement. For example, where council has developed its income and expenses statement by fund, the Capital Budget Review statement must be developed at the fund level also.

Where recommended changes to the budget relate to the deferral of capital works programs to another year, an explanation for the deferral and revised implementation information should be included in the report. It should also include impacts of the deferral along with a recommendation for reallocation or carry over of the funds.

Any proposed changes that have a substantial impact on planned capital works, reserves or purchases and sales of capital assets during the current financial year are to be notified to council in this report.

As a means of keeping councillors up to date with asset works, purchases and sales, the report should include information on recent asset purchases and disposals and their impact on the budget.

Appendix 3 refers.

4.5 Cash and Investments Budget Review Statement

This statement will show the original budgeted cash and investment position, the revised position and the projected year end position. It will also show the anticipated year end available cash position.

Council may include more specific detail such as transfers to and from reserves and planned transfers in reserves in order to provide additional information for councillors.

Councils are required to include a statement regarding the cash position and reconciliation with cash reserves and investments. It will also include a statement regarding the last bank reconciliation undertaken, and any outstanding reconciliation(s).

Appendix 4 refers.

4.6 Key Performance Indicator (KPI) Budget Review Statement

In developing its management plan / operational plan council will have identified a number of key performance indicators to enable it to monitor its performance against the plan. Council's long term financial plan should also include methods of monitoring financial performance, including measures to assess its long-term financial sustainability.

Council's achievements against its KPIs in the management plan / operational plan should be reported in the quarterly reports to council. The measures or KPIs may extend beyond financial indicators and while councillors and the community should be given an indication of how council is progressing against these measures in respect to achieving its objectives, outcomes, etc, the minimum requirement for QBRS is a report on the key financial indicators, including council's long term financial sustainability.

If council did not identify specific key performance measures in its management plan, it will need to establish a suite of performance measures based on the plan and report on these each quarter in the QBRS.

As councils may already have a set format for reporting against KPIs, the format of this statement has not been specified in these guidelines.

4.7 Budget Review Contracts and Other Expenses

Councillors are currently made aware of tenders of \$150,000 or more in accordance with legislation. However councillors should be made aware of other material contracts entered into by council and details of other expenses that are of particular interest. To this end a contract listing and details of legal fees and consultancy expenses are included in the QBRS.

Part A of the report will list contracts (other than employment contracts and contracts entered into from Council's "preferred contracts list") that:

- were entered into during the quarter under review but have not been fully performed or completed; and,
- have a value equal to or more than
 - \$50,000 or,
 - 1% of council's estimated income from continuing operations,whichever is the lesser.

The listing will include:

- Contractor name
- Purpose of the contract
- Amount of consideration
- Commencement date of the contract
- Duration of the contract
- Whether or not the contract was included in the budget

Part B of the report will show expenditure to date for:

- Consultancies
- External legal fees.

For the purposes of this report, a consultancy is defined as a person or organisation engaged under contract on a temporary basis to provide recommendations or high level specialist or professional advice to assist decision-making by management. Generally it is the advisory nature of the work that differentiates a consultant from other contractors.

The template for the contract listing and other expenses is at Appendix 6.

5. Additional information

It is stressed that these template documents contain the minimum reporting requirements for quarterly reporting. It is expected that the templates will form part of a suite of reports to councillors.

Any explanations provided as part of these reports should be in plain English and in a style that is understandable by readers of non-financial reports. It is essential that the narrative is clear to assist informed decision making.

There will be occasions when councillors require additional information to form a view, make a decision or fully understand a situation. Council's policies and legislation set out councillors' entitlement to information and the means by which that information should be obtained.

Examples of additional information that may be asked for include:

- Details of specific works and services affected by budget variations
- Transfers to and from financial reserves such as S94 contributions
- Information about sale or acquisition of plant and equipment
- Percentage of rates and annual charges outstanding
- How Council is tracking to meet its obligations under the Delivery Program / Community Strategic Plan
- The amount of money in the bank
- Progress on specific capital projects (to completion and against budget)

Council staff need to ensure that councillors are aware of the correct processes regarding requests for additional information and that requested information is provided in a timely fashion.

6. QBRS templates

Appendix 1 – Report by Responsible Accounting Officer

The RAO is required to indicate whether or not they believe that the QBRS shows that the financial position of council will be satisfactory at year end. Consideration having been given to the impact of changes to the original budget and the target financial position detailed in the management plan / operational plan.

If the RAO believes that the “Projected year end result” may result in a deterioration of council’s original budgeted financial position that is considered to be unsatisfactory, then recommendations for remedial action are required to be made.

The following statement is the minimum requirement and should be supplemented by more information as appropriate.

The following statement is made in accordance with Clause 203(2) of the Local Government (General) Regulations 2005.

It is my opinion that the Quarterly Budget Review Statement for ABC Council for the quarter ended xx/xx/xx indicates that Council’s projected financial position at 30/6/XX will be *satisfactory / unsatisfactory* at year end, having regard to the projected estimates of income and expenditure and the original budgeted income and expenditure.

In the case of an unsatisfactory financial position:

The responsible accounting officer is to state recommendations for remedial action here.

Signed: _____ date: ___/___/___

Name

Responsible Accounting Officer, ABC Council

Appendix 2 –Income and Expenses Budget Review Statement

Council may determine the most appropriate level of reporting however any statement must include the minimum requirements outlined at 4.3 above.

SAMPLE A - consolidated or by fund

ABC Council

Budget review for the quarter ended - XX XXXXXXX 20XX

Income & Expenses (e.g. consolidated or by fund)

	ORIGINAL Budget 20xx/xx (000's)	Approved Changes		REVISED Budget (000's)	Recommended	PROJECTED	ACTUAL YTD (000's)
		Sept Review (000's)	Dec Review (000's)		changes	year end	
					for Council Resolution (000's)	result 20xx/xx (000's)	

Income (examples include:)

- Rates and Annual Charges
- User Charges and Fees
- Interest and Investment Revenue
- Other Revenues
- Grants & Contributions - Operating
- Grants and Contributions - Capital
- Contributions (S94)
- Net gain from the disposal of assets
- Share of interests in joint ventures

Total Income from continuing operations

Expenses (examples include:)

- Employee costs
- Borrowing Costs
- Materials & Contracts
- Depreciation
- Legal Costs
- Consultants
- Other Expenses
- Interest and Investment Losses
- Net Loss from Disposal of Assets
- Share of interests in joint ventures

Total Expenses from continuing operations

Net Operating Result from continuing operations

Net Operating Result before capital items

Notes:

ORIGINAL Budget +/- approved budget changes in previous quarters = REVISED Budget
 REVISED Budget +/- recommended changes this quarter = PROJECTED year end result

Recommended changes to revised budget

Include:

- an explanation for recommended changes and any impact on Council's original management / operational plan, delivery program or LTFP.
- any impacts of YTD expenditure on recommended changes to the budget

NOTES: (1) Explanations are to be in plain English and in a style easily understood by readers of non-financial information.

This narrative is important in understanding why budget changes are necessary.

(2) Council has the option of reporting Legal and Consultant fees separately or including them in 'Other Expenses'.

This document forms part of ABC Council's Quarterly Budget Review Statement for the quarter ended xx/xx/xx and should be read in conjunction with other documents in the QBRS.

ABC Council

Budget review for the quarter ended - XX XXXXXXXXXXXX 20XX

Income & Expenses (e.g. by Function / Activity/ Program)

	ORIGINAL	Approved Changes		REVISED	Recommended changes for Council Resolution	PROJECTED	ACTUAL	
		Budget	Sept			Dec		year end result
			20xx/xx			Review		
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	YTD	

Income (examples include:)

- Administration
- Public Order & Safety
- Community Services & Education
- Housing & Community Amenities
- Water Supplies
- Sewer Services
- Manufacturing and Construction
- Transport and Communication
- Economic Affairs

Total Income

Expenses (examples include:)

- Administration
- Public Order & Safety
- Community Services & Education
- Housing & Community Amenities
- Water Supplies
- Sewer Services
- Manufacturing and Construction
- Transport and Communication
- Economic Affairs

Total Expenses

Notes:

ORIGINAL Budget +/- approved budget changes in previous quarters = REVISED Budget
 REVISED Budget +/- recommended changes this quarter = PROJECTED year end result

Recommended changes to revised budget

Include:

- an explanation for recommended changes and any impact on Council's original management plan / operational plan, delivery program or LTFF.
- any impacts of YTD expenditure on recommended changes to the budget

NOTE: Explanations are to be in plain English and in a style easily understood by readers of non-financial information. This narrative is important in understanding why budget changes are necessary.

Appendix 3 – Capital Budget Review Statement

ABC Council

Budget review for the quarter ended - XX XXXXXXXXXX 20XX

Capital Budget *(at same level of reporting as for Income & Expenses Statement)*

	ORIGINAL Budget 20xx/xx (000's)	Approved Changes		REVISED Budget (000's)	Recommended	PROJECTED	ACTUAL YTD (000's)
		Sept Review (000's)	Dec Review (000's)		changes for Council Resolution (000's)	year end	
						result 20xx/xx (000's)	

Capital Funding *(examples include:)*

Rates and other untied funding

Capital Grants & Contributions

Internal Restrictions

- renewals

- new assets

External Restrictions

- infrastructure levy

Other Capital Funding Sources e.g.

- loans

Income from sale of assets

- plant and equipment

- land and buildings

Total Capital Funding

Capital Expenditure *(examples include:)*

New Assets

- Plant and Equipment

- Land and Buildings

Renewals (Replacement)

- Plant and Equipment

- Land and Buildings

- Roads, Bridges, Footpaths

Loan Repayments (principal)

Total Capital Expenditure

Where **Total Capital Funding** and **Total Capital Expenditure** figures do not match, an explanation is to be given. Carry over funding from the previous year should be identified and any proposed carry over to next financial year explained.

Notes:

ORIGINAL Budget +/- approved budget changes in previous quarters = REVISED Budget

REVISED Budget +/- recommended changes this quarter = PROJECTED year end result

Recommended changes to revised budget

Include:

- an explanation for recommended changes and any impact on Council's original management / operational plan, delivery program or LTFP.

- any impacts of YTD expenditure on recommended changes to the budget

NOTE: Explanations are to be in plain English and in a style easily understood by readers of non-financial information. This narrative is important in understanding why budget changes are necessary.

This document forms part of ABC Council's Quarterly Budget Review Statement for the quarter ended xx/xx/xx and should be read in conjunction with other documents in the QBRs.

Appendix 4 –Cash and Investments Budget Review Statement

ABC Council

Budget review for the quarter ended - XX XXXXXXXXXXXX 20XX

Cash & Investments

	ORIGINAL		Approved Changes		REVISIED Budget (000's)	Recommended changes for Council Resolution (000's)	PROJECTED		ACTUAL YTD (000's)
	Budget	Sept	Dec	year end					
	20xx/xx	Review	Review	result					
	(000's)	(000's)	(000's)	20xx/xx (000's)					

Unrestricted

Externally restricted

(examples include:)

RTA Contributions

Developer contributions

Domestic waste management

Special Rates

Unexpended loans

Special purpose grants

Total Externally restricted

Internally restricted

(examples include:)

Employee Leave entitlements

Replacement of Plant and Vehicles

Tip improvements

Occupational Health and Safety

Superannuation

Asset renewals

Total Internally restricted

Total Restricted

Total cash and investments

Available cash

Notes:

The **available cash** position excludes restricted funds. External restrictions are funds that must be spent for a specific purpose and cannot be used by council for general operations. Internal restrictions are funds that council has determined will be used for a specific future purpose.

ORIGINAL Budget +/- approved budget changes in previous quarters = REVISIED Budget

REVISIED Budget +/- recommended changes this quarter = PROJECTED year end result

NOTE: Explanations are to be in plain English and in a style easily understood by readers of non-financial information. This narrative is important in understanding why budget changes are necessary.

Cash & Investments Budget Review Statement (cont)

Comment on cash and investments position

Include an explanation for any impact on Council's original management / operational plan or delivery program.

Recommended changes to revised budget

Include:

- an explanation for recommended changes and any impact on Council's original management plan / operational plan, delivery program or LTFP.
 - any impacts of YTD expenditure on recommended changes to the budget
-
-

Statements:

Investments

RAO to state whether or not restricted funds are invested in accordance with council's investment policies. If not, an explanation is to be given.

State the extent to which restricted funds have been invested by providing a reconciliation of the total restricted funds to the current Monthly Investment Report.

Cash

RAO to make a statement regarding the reconciliation of cash with the bank statement and include the date to which the last bank reconciliation has been done.

Reconciliation

The YTD total Cash and Investments is to be reconciled with funds invested and cash at bank.

This document forms part of ABC Council's Quarterly Budget Review Statement for the quarter ended xx/xx/xx and should be read in conjunction with other documents in the QBRs.

Appendix 5 – Budget Review Key Performance Indicators Statement

In this statement, council will identify key financial performance measures and provide commentary on its achievements to date.

The format of this statement is optional for councils but must give sufficient information to councillors and the community on its progress against the financial indicators (as a minimum) included in the management plan / operational plan.

If the management plan does not include key financial indicators, council should develop a suite of financial indicators against which to report to give an indication of its current financial position and long term financial sustainability.

Appendix 6 – Budget Review Contracts and Other Expenses

PART A - Contracts Listing

ABC Council

Budget review for the quarter ended - XX XXXXXXXXXXXX 20XX

Contracts

Contractor	Contract detail & purpose	Contract value	Commencement date	Duration of contract	Budgeted (Y/N)

Notes

1. Minimum reporting level is 1% of estimated income from continuing operations or \$50,000 whichever is the lesser.
2. Contracts to be listed are those entered into during the quarter and have yet to be fully performed, excluding contractors that are on Council's Preferred supplier list'.
3. Contracts for employment are not required to be included.
4. Where a contract for services etc was not included in the budget, an explanation is to be given (or reference made to an explanation in another Budget Review Statement).

This document forms part of ABC Council's Quarterly Budget Review Statement for the quarter ended xx/xx/xx and should be read in conjunction with other documents in the QBRs.

PART B - Consultancy and Legal expenses

ABC Council

Budget review for the quarter ended - XX XXXXXXXXXXXX 20XX

Consultancy and Legal expenses

Expense	Expenditure YTD \$	Budgeted (Y/N)
Consultancies	_____	_____
Legal Fees	_____	_____

Definition of consultant:

A consultant is a person or organisation engaged under contract on a temporary basis to provide recommendations or high level specialist or professional advice to assist decision-making by management. Generally it is the advisory nature of the work that differentiates a consultant from other contractors.

NOTE:

Where any expenses for Consultancy or Legal fees (including Code of Conduct expenses) have not been budgeted for, an explanation is to be given. Report on external expenses only (not internal expenses).

This document forms part of ABC Council's Quarterly Budget Review Statement for the quarter ended xx/xx/xx and should be read in conjunction with other documents in the QBRs.