



Local Excellence

Councils Working Together for Communities

Financial Sustainability

Information Paper 13

Annual Business Plan

Revised January 2012



Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

What is an annual business plan?

The annual business plan (ABP) is a Council's statement of its intended programs and outcomes for the year. It links the Council's longer term planning for its area, as set out in its strategic management plans, with the allocation of resources in its budget. The ABP also establishes the basis for review of the Council's performance over the year included in its annual report.

The content required for the ABP is set out in Section 123 (2) of the [Local Government Act 1999](#) (the Act) and in Regulation 6 of the [Local Government \(Financial Management\) Regulations 2011](#) (the Regulations). The document must include the following elements:

- a summary of the Council's longer term objectives, as set out in its strategic management plans;¹
- the Council's specific objectives for the next year, and the measures against which its performance will be measured;²
- the activities (services and projects) that the Council intends to undertake to achieve its objectives;³
- an assessment of the Council's financial requirements for the year and a summary of its proposed expenditure and sources of revenue;⁴ and
- the Council's proposed approach to rating for the year and what that approach means for ratepayers.⁵

The ABP must also "take into account" the Council's long-term financial plan (LTFP) and the management and development of infrastructure and major assets.⁶ Therefore, the ABP should be consistent with the Council's LTFP⁷ and its infrastructure and asset management plan (I&).⁸

Previous work done on the Council's strategic management plans will help establish clear and consistent parameters for preparation of the ABP. This work will have provided strategic analysis and identified the Council's vision for its area and its longer term objectives.

¹ Section 123(2)(a) of [the Act](#).

² Section 123(2)(b)(i) and (iii)

³ Section 123(2)(b)(ii)

⁴ Section 123(2)(c)

⁵ Section 123(2)(d) and (e); along with Regulation 6 of [the Regulations](#).

⁶ Section 123(2)(f)

⁷ See Local Government Financial Sustainability Information Paper No. 8: *Long Term Financial Plans* at www.lga.sa.gov.au/goto/fsp.

⁸ See Local Government Financial Sustainability Information Paper No. 6: *Infrastructure and Asset Management* at www.lga.sa.gov.au/goto/fsp

For example, development of the Council's LTFP and the Council's I&⁹ will establish year by year parameters for the Council's operating surplus/deficit and its level of net financial liabilities.

How does the annual business plan relate to the budget?

The annual budget is a Council's statement of:

- its intended operating expenses and capital expenditure as well as revenue and other financing sources to give effect to its annual business plan; and
- its projected financial position.

Decisions in the annual business plan on matters such as project priorities and levels of service provision are subject to the funds available, as determined through the budget process and in the context of the Council's LTFP and its I&.

Since the annual business plan and the budget are so closely inter-related, a Council may choose to combine the two in a consolidated document as long as all content required by the legislation is addressed, and the annual business plan forms a distinct first part to a consolidated document. It is a matter of preference for each Council whether it considers that the relevant information is best communicated to the community in a consolidated document or in separate annual business plan and budget documents. In any event, good practice would include a high-level summary of operating and capital investment activities, prepared in a format consistent with the Uniform Presentation of Finances, as required for the Council's Budget.¹⁰ This would provide a platform for budget comparisons made during the year.¹¹

What is appropriate consultation?

[The Act](#) requires consultation on a Council's draft annual business plan.¹² It does not require consultation on any draft budget. Nevertheless, it is desirable that a draft budget be prepared (at least for internal use) at the same time as consultation on a draft annual business plan. This will provide an assurance that the content of a draft annual business plan is consistent with a Council's plan to achieve or maintain financial sustainability.

The requirement to consult on a draft ABP envisages that a Council will seek community input to its priorities, funding and rating policies without having to wait until more detailed financial information is available towards the end of the financial year.

Each Council must have a public consultation policy, which is relevant to a variety of Council matters. However, consultation on the draft ABP is subject to a specific set of requirements that vary from those required when consulting the public on other matters.

The minimum consultation requirement for the draft ABP comprises:

- publication of a notice in the local press; giving at least 21 days for interested persons to make submissions:
 - in writing, or
 - at a public meeting;¹³ and

⁹ These two plans are considered to be part of the Council's strategic management plans. See Section 122 (1a) of [the Act](#).

¹⁰ See Regulation 7(c) of [the Regulations](#).

¹¹ See Local Government Financial Sustainability Information Paper No. 25: *Monitoring Council Budget Performance* at www.lga.sa.gov.au/goto/fsp.

¹² Section 123(3) (4) (5) and (5a) of [the Act](#).

¹³ Section 123 (4)

- making copies of the draft ABP available both at the required public meeting and also at least 21 days beforehand;¹⁴ and
- a website facility for:
 - questions and answers on the draft ABP; and
 - making written submissions.¹⁵

All submissions received must be considered by the Council in finalising its ABP.¹⁶ A Council that prepares a combined draft annual business plan and budget document can choose to consult on the whole document, although the consultation draft need not include the full financial detail to be finalised in completing the budget.

Unless there are controversial elements of major community concern, Councils have found in practice, that consultation does not usually generate a high level of community response.

To promote wider community engagement, each Council is encouraged to undertake whatever additional consultation it considers appropriate, in accordance with its public consultation policy. Some Councils have chosen to undertake preliminary consultation focused on community priorities for services and projects. This can help in the formative stages of developing the annual business plan and also can help in building community awareness of the range of services provided by the Council. Methods such as questionnaires, surveys and focus groups may be appropriate, and community newsletters or features in the local newspaper can be used to provide information.

A Council may consider that it already has a close enough engagement with its community to be able to prepare a draft annual business plan with a reliable awareness of community priorities, without requiring further consultation beyond the statutory requirement.

Good practice would be to refer the draft annual business plan to the Council's audit committee for comment before the Council circulates it for consultation.

When should the annual business plan be prepared?

[The Act](#) does not provide specific dates for preparation of a draft ABP. Rather, it specifies the end dates. The ABP and the budget must be adopted no earlier than 1 June, and no later than 31 August.¹⁷

In practice, initial Council consideration of a draft ABP generally should commence no later than mid-March to allow time for finalisation of the draft for consultation around April and final adoption in June or early July.

How should the annual business plan be published?

A Council must prepare a summary of its ABP to be sent out with the first rates notice for the year.¹⁸ The summary must include “*an assessment of the extent to which the council's objectives for the previous financial year have been attained (taking into account the provisions of the annual business plan for that financial year)*”.¹⁹

¹⁴ Section 123 (5)

¹⁵ Section 123 (5a)

¹⁶ Section 123 (6)

¹⁷ Section 123 (8)

¹⁸ Section 123 (9)

¹⁹ Section 123 (11)

Copies of the full annual business plan and annual budget documents and the annual business plan summary also must be made available to the public from the Council offices²⁰ and on the Council's web-site.²¹

The requirement to send out an annual business plan summary with the first rates notice will be most easily met if the summary version has already been prepared at the time of consultation with residents and ratepayers on the draft annual business plan. A clearly expressed and presented summary, highlighting the key issues relevant to ratepayers should assist this communication and consultation process.

What should be the format of the annual business plan?

While [the Act](#) and [the Regulations](#) prescribe content to be included in the ABP, each Council is free to determine the format of its plan.

Attachment 1 sets out a suggested template and guidelines for preparation of a clear and logical ABP, addressing all requirements of the legislation. Where applicable it incorporates content suggested by the LGA in other Information Papers.

The template is by no means the only appropriate format for the ABP and should not constrain other approaches that better suit the needs of a particular Council. However, it is advisable to keep an ABP relatively brief and simple, to maintain a clear strategic focus and to encourage ratepayer interest in the document.

Acknowledgements

The contribution of Mr Doug Hayes in the preparation of this paper is acknowledged.

This project has been assisted by the [Local Government Research and Development Scheme](#).

²⁰ Section 123 (9)(b) and Section 132 (1) and Schedule 5 of [the Act](#).

²¹ Section 132 (3) (da)

Attachment 1: Model Framework for Council Annual Business Plans

The annual business plan is intended as a clear public statement of a Council's proposed program for the year, and the factors shaping it, as required by the Local Government Act 1999. The following framework provides an outline format for an annual business plan which meets these objectives.

It is not necessarily expected that all Councils will follow this framework – other approaches can be equally valid. However it provides a ready made outline of general application which can be used in whole, or in part, and which can be adapted to meet the particular requirements of the Council. The same basic structure can be adapted for the consultation draft, the final document and the summary version.

Italicised notes and comments, enclosed in square brackets '[]' have been included (with additional comments in text boxes) to assist Councils' interpretation and use of the framework. These notes and text boxes should be deleted as the annual business plan is prepared.

Introduction

The annual business plan sets out the Council's proposed services, programs and projects for [201x-1x]. It aims to maintain efficient services for the community and continue progress towards the longer term objectives for the [City / District / Town] set out in the strategic management plan adopted by the Council on [xx/xx/201x]. Specific objectives for the year are proposed consistent with the Council's long-term financial [and asset management] plans to ensure the long-term sustainability of the Council's financial performance and position.

[Brief background paragraph(s) on the Council area – population, economy, attractions, major issues.]

The introduction, or preamble, should clearly state the purpose and context of the document. It could be presented in the form of a message from the Mayor/Chairperson.

It should also establish the distinctive identity of the Council area and its issues, summarising briefly material that will usually already be available in the Council's strategic planning and promotional documents.

Cross reference should be made to other related Council documents including the strategic management plan and budget documents.

1. Our Future

[Fill in a summary of the Council's longer term strategic directions from the current strategic plan / strategic management plan document, including vision, goals and objectives.]

[Briefly summarise progress on key programs since the strategy document was adopted so that the annual business plan can be seen in longer term context.]

[Outline current status of the Council's strategic planning document(s) – when adopted, if under review, when next review is intended.]

This addresses the requirement of Section 123 (2) (a) to include a summary of the Council's long-term objectives, as set out in its strategic management plans.

It should follow on from the descriptive paragraphs on the Council area and its issues to set out the Council's vision and longer term aims (goals and objectives).

2. Significant Influences and Priorities

A number of significant factors have influenced the preparation of the Council's [201x-1x] annual business plan. These include:

[Examples:]

- Local Government Cost Index increases on relevant goods and services of [x%] for the previous year;
- enterprise bargaining agreements which provide for wages and salary increases of [x%];
- Council's policy on service standards to be met by provision of, maintenance and renewal of infrastructure assets including roads, footpaths, lighting, stormwater drainage, street trees and plantings, open space and Council properties;
- service and infrastructure needs for a [growing / changing / declining] population;
- commitments to continuing projects and partnership initiatives over more than one year, including[examples];
- reduction/removal of State/Commonwealth grant funding for services that Council proposes to continue providing;
- new or increased fees/charges imposed by other governments e.g. waste levy.

In response to these factors, and to minimise the burden on rate-payers, the annual business plan has been prepared within the following guidelines:

[Examples:]

- the annual business plan will result in the total revenue raised through general rates increasing by no more than [x%] above the Local Government Cost Index and revenue from new properties;
- total operating expenses to be held within [x%] of the current year's level;
- major projects including those partnered with other entities i.e. Federal, State, private.

The Council's priorities for [201x – 201x] are

[List priorities (these should be the key high level priorities for the year – not duplicating the more specific listing of the Council's objectives for the year in part 5.)]

This part identifies key factors impacting on planning for the following year, including additional costs to be absorbed, and the approach taken by the Council to manage these factors.

3. Continuing Services

All Councils have basic responsibilities under the [Local Government Act 1999](#) and other relevant legislation. These include:

- regulatory activities e.g. maintaining the voters roll and supporting the elected Council;
- setting rates, preparing an annual budget and determining longer-term strategic management plans for the area;
- management of infrastructure and other assets including roads, footpaths, parks, public open space, street lighting and storm-water drainage;
- street cleaning and rubbish collection;
- development planning and control, including building safety assessment; and
- various environmental health services.

In response to community needs the Council also provides further services and programs including:

[List specific services provided eg:

- *Libraries;*
- *Community centres;*
- *Economic development;*
- *Environmental programs;*
- *Community programs;*
- *On-street parking management to maximise use of kerbside space.]*

In all services the Council seeks to be responsive to changing needs. Regular community surveys are undertaken to check levels of satisfaction and areas for improvement.

The Council also operates a number of facilities on a fee for service basis. These provide important community benefits while also generating revenue for services and projects of benefit to the *[City / District / Town]*.

[List specific facilities provided e.g.

- *Caravan parks;*
- *Recreation facilities including swimming pool, recreation centre etc.]*

Further information is provided on each of the services provided by the Council in [Attachment X](#). This includes an indication of the cost of providing the service and how the service contributes to achievement of the Council's strategic objectives.

[Outline any significant changes proposed to service delivery for the following year e.g. services discontinued, additional services proposed or significant changes in service level provided, including impacts of removal/continuation of external grants.]

This part and the next address the requirement of Section 123 (2) (b) (ii) to outline the activities that the Council intends to take to achieve its objectives for the year.

Provision of greater detail on each service in an attachment is suggested. This should include the cost of providing the service and as such will overlap with the budget document. It should also indicate the level of service provided, and how it contributes to the Council's strategic objectives.

4. Project Priorities for the Year

[Outline major projects proposed and their contribution to the Council's strategic objectives.]

[Outline asset maintenance and renewal requirements for minimising whole of life cycle costs of assets, referring to key points in the asset management plan.]

Further information is provided on each of the projects proposed for next year in Attachment X.

Together with the previous part this addresses the requirement of Section 123 (2) (b) (ii) to outline the activities that the Council intends to take to achieve its objectives for the year.

It also addresses the requirement of Section 123 (2) (f) to take into account relevant issues relating to management and development of infrastructure and major assets.

As for services, provision of greater detail on projects proposed and costs is suggested in an attachment. This should include a summary listing of the proposed capital program.

5. Measuring Performance - Objectives for the Year

The annual business plan has been prepared to deliver the following Council objectives for the year:

[Suggest use of strategic management plan goals as headings to group objectives]

- [List specific key objectives to be delivered by the proposed services and projects for the year. (suggest no more than 15 or so in total for manageable reporting)]*

This part addresses the requirement of Section 123 (2) (b) (i) and (iii) to include an outline of the Council's objectives for the financial year and the measures (financial and non-financial) that the Council intends to use to assess its performance against the objective.

If each of the annual objectives is expressed as a clear measurable target, separate measures of performance should not be needed.

e.g. Achieve an operating surplus between \$0.4 million and \$0.7 million

Achieve a net financial liabilities ratio between 40% and 50%

Complete landscaping of High Street by March 2015.

Achieve at least 80% customer satisfaction rating in annual customer survey.

6. Funding the Business Plan

Consistent with the Council's long-term financial plan, an operating surplus (deficit) of *[\$x million]* is being targeted in *[201x-1x]*. The operating surplus (deficit) measures the difference between operating revenue and expenses for the period. The Council's long-term financial sustainability is dependent on ensuring that, on average over time, its expenses are less than its revenue.

The Council's revenue in *[201x-1x]* includes *[\$x million]* proposed to be raised from general rates.

Other sources of revenue for the Council are:

User Pay charges set by Council. These comprise charges for the Council's fee based facilities such as *[List facilities such as caravan parks etc.]* Revenues generally should off-set the cost of the service.

Statutory Charges set by State Government. These are fees and charges set by regulation and collected by the Council for regulatory functions such as assessment of development applications.

Grants and Partnerships. Subject to consistency with the Council's longer-term objectives and its ongoing financial sustainability, the Council normally seeks to attract as much grant funding as possible from other spheres of government, and major projects of wider State benefit are usually jointly funded in partnership with the State government and other relevant parties.

[Include pie graphs of revenue sources and of expenses by category. (Can be based on current budget for consultation draft)]

[Outline key elements of long-term financial plan relating to revenue and expenses.]

Impact on Council's Financial Position

After taking account of planned net outlays on existing and new assets in *[201x-1x]*, the Council's net lending (net borrowing) in *[201x-1x]* is expected to be *[\$x million]*. Accordingly, the level of the Council's net financial liabilities is expected to decrease (increase) by approximately that amount to be *[\$x million]* at 30 June *[201x]*. Net financial liabilities is a key indicator of the Council's financial position. It measures total liabilities less financial assets (i.e. what the Council owes to others, less money the Council has or is owed). The expected level of net financial liabilities at 30 June *[201x]* represents *[x%]* of estimated operating revenue in *[201x-1x]*. This compares with a targeted level for this indicator of between *[x%]* and *[x%]* of revenue, as shown in the Council's long-term financial plan .

This part addresses the requirement of Section 123 (2) (c) to include a summary of the Council's financial requirements for the year, proposed operating expenditure, capital expenditure and sources of revenue.

It also addresses the requirement of Section 123 (2) (f) to take into account the Council's long-term financial plan.

7. What it means for rates.

[Provide a brief overview of the Council's rating structure including:

- valuation method and reasons adopted for rating purposes.*
- general or differential rates. If differential give reasons and indicate expected revenue level from each class of rate.*
- fixed charge component of general rate (if proposed) – reasons and level if applicable.*
- use and level of any separate rate, service rate or service charge, and reasons for imposing (if applicable).*
- application of a minimum rate payable (if applicable)*
- consideration of community equity issues in determining rating policy and impact of rates across the area.]*

[Outline assistance available:

- *maximum increase in rates payable for a property (if applicable).*
- *Council policy on discretionary rebates and remissions, including reasons.*
- *outline all the options for assistance open to ratepayers.*
- *assistance available for people who are having trouble paying – confidentiality to be maintained.*
- *non-concessional rates postponement scheme for State Seniors available as a right.]*

[Outline expected impact on ratepayers based on modelling undertaken e.g.

- *Summarise significant trends in property valuations within the Council area, overall, by major land use category and in relation to localities with major change.*
- *Rates may increase between xx% and xx% (indicate types of properties – residential, primary industry, commercial etc). .*
- *Overall, the average increase in general rates will be x%, excluding rates from new development*
- *Reminder that property valuations will increase/decrease if the land use of the property has changed (e.g. residential to commercial), or if there has been any development on the property (including significant renovations)]*

This part addresses the requirements of Section 123 (2) (d) and (e) to include a summary of the Council's proposed rates structure and policies, and their expected impact on the community, based on modelling.

It also addresses the additional rates policy information required by the Regulations.