



LOCAL GOVERNMENT
ASSOCIATION OF
QUEENSLAND INC.

Model
Business Management
Compliance Policy and
Manual

May 2003



Business Management Ongoing Policy and Manual

Overview

This model Policy and Manual has been prepared as part of the Business Management Assistance Program (BMAP) to assist Councils in finalizing the implementation of the business management reforms, and where a Council has fully implemented these reforms, be eligible for assessment for the final ten percent of the Local Government Financial Incentive Payments (LGFIPS).

As with other aspects of the BMAP, this Guide is aimed at Business Activities under the Code of Competitive Conduct, rather than Commercialised or Corporatised Business Units. However, they could easily be adapted by incorporating the additional requirements for those types of businesses.

Wherever possible, examples have been shown in the Manual, based on Business Activities which have been assessed as complying by the Queensland Competition Authority (QCA). The proposed policy and procedures have been designed to be incorporated within existing Council practices and documentation.

It is strongly suggested that Council's adopt a Compliance Policy and Manual before 30 June 2003, so as to be eligible for LGFIP payments. Similarly, it is suggested that Council's prepare a performance report on their Business Activities, as outlined in the Policy and Manual in relation to 2002/2003 performance, and ideally for at least one quarter before 30 June 2003.

Councils will need to adapt this model policy and manual to fit with their specific practices and requirements. In particular, the QCA has advised that they will check that the Policy is integrated with the Council's Corporate Plan, and will also check that the policy and manual have been implemented.

Acknowledgements

The model Policy and Manual has been formulated and tested in the BMAP pilot Council – Laidley Shire Council. Laidley Shire's ongoing support for the BMAP program as the pilot Council is greatly appreciated.

The Model Policy is based on the Compliance Policy adopted by Townsville City Council, which has been assessed as being compliant by the QCA. Townsville City's assistance is acknowledged and appreciated.

Maroochy Shire Council kindly provided the BMAP project with a copy of their Compliance Manual. Although their manual is very detailed and designed primarily for Commercialised Business Units, it received full compliance assessment by the QCA (on the advice of independent consultants), and aspects have been used in the attached Manual where possible. Maroochy Shire's support is also greatly appreciated.

The draft policy and manual have been reviewed by the QCA and their feedback incorporated into the final document. The QCA's assistance in this regard is acknowledged and appreciated.

For further assistance, please contact David Spearritt (07 3378 3484), Director, ORION Consulting Network or Natalie Kent (07 3000 2239), Manager – Finance, Governance and Community, Local Government Association of Queensland.



Business Management Compliance Policy

Corporate Plan Commitments

The Corporate Plan makes the following commitments in relation to business management of Council Business Activities (BA's):

[Insert all relevant statements from the Corporate Plan (eg. statements relating to efficiency and effectiveness, accountability, customer service, financial management and asset management). However it is strongly recommended that the following statement (based on wording in the Local Government Act) be incorporated into the Corporate Plan and included into this policy]

Council desires to continually improve its efficiency and management practices, and intends to apply business management practices (including the code of competitive conduct) to business activities where this is a benefit to the community. The key objectives of Council's business activities are to be commercially successful in carrying on its activities and efficient and effective in the provision of goods and delivery of its services, including things done as community service obligations. The commercial success, efficiency and effectiveness of a business activity are to be measured against its financial and non-financial performance targets.

Reason for the Policy

In line with the Corporate Plan and the National Competition Policy Principles Agreement, it is imperative that there be continual improvement in the economic performance of all Council BA's. This needs to be achieved both through internal efficiency improvements and the implementation of sound business management practices, including competition policy reform measures.

It is Council's intention to continue to apply business management reforms wherever there is a benefit to the community.

Business Management Policy

Commitment

Council resolves to continue to comply with the provisions of the Local Government Act 1993, Regulations and Guidelines in the implementation of Competitive Neutrality Principles for its nominated BA's.

The Council will continue apply the principles of Competitive Neutrality to BA's where Council has resolved to apply the code of competitive conduct, and there is a continuing benefit to the community.

The principle of competitive neutrality will be achieved by ensuring that the prices charged by Council BA's reflect a similar cost structure to that faced by private sector competitors or equivalent private sector organisations, subject to any Community Service Obligations adopted by Council under this policy.



Governance and Management Autonomy

The Council will continue to be responsible for setting broad policy directions for all BA's, through the adoption of the annual Operational Plan for each BA. Council will also specify the parameters for each BA and the relevant Community Service Obligations in the annual Revenue Policy and Revenue Statement.

For each BA to operate effectively, Council will delegate to the BA's, through the Chief Executive Officer, responsibility for the day-to-day operation of their BA. Management responsibilities, officer delegations and accountabilities are to reflect Council's direction.

The BA's will be accountable to Council for the implementation of the Operational Plan and provide Council with regular reporting on its implementation. In accordance with s512 of the Local Government Act, the CEO will assess progress towards implementing the Operational Plan requirements of the BA's and will present a written report to Council on regular intervals, at least quarterly.

BA Managers are responsible for ensuring the ongoing market competitiveness of their BA's. Council may delegate the power to set Commercial fees to a BA Manager if it can be demonstrated that a business case exists requiring the business to quickly respond to market conditions.

The [insert name of committee] Committee is the BA Committee and is responsible for oversight of compliance by each BA with the business management aspects of Operational Plans and any systemic or recurrent business management compliance problems. BA Managers are accountable and responsible for BA's through reporting against the Performance Plan or business management aspects of the Operational Plan to the BA Committee.

Key Performance Indicators

In accordance with section 510 of the Local Government Act, The Operational Plan for BA's will contain financial and non-financial performance measures about the required outcomes.

Details of Compliance

To ensure that there is continuing compliance with the business management reforms, Council adopts the attached Business Management Compliance Procedures, which are based on the following measures:

Annual Review of Business Activities

The CEO is required to ensure that an annual assessment of financial and non-financial compliance issues is undertaken, appropriate corrective or necessary action is instigated and that the implementation of such action is professionally managed.

Budgeting and Accounting

The Council's chart of accounts will provide for direct and indirect costs, finance costs, depreciation, allocation of overheads, internal and external revenue, and community service obligations.



Within overall Council policy direction, BA's will be responsible for the preparation of draft annual budgets to meet the full requirements of full cost pricing as set out in the Local Government Act, Finance Standards and DLGP guidelines.

BA's will be responsible for quarterly reporting to Council, via the BA Committee, on meeting budget outcomes. Key budgetary performance indicators include meeting the required rate of return targets set in the Revenue Statement, and the payment of any dividend specified in the Budget.

Pricing Policy

In setting prices for works and services for the BA's, Council is committed to a full cost pricing policy for the supply of the product or service. Council will adhere to the pricing principles to achieve full cost pricing as set out in the Local Government Finance Standards.

Allocation of Corporate Overheads

The Council's chief financial officer will review on an annual basis, as part of the budget process, the level of corporate overhead to be allocated to Council BA's, based on the proposed budget for the following year. Such review will include identification of governance costs (not to be allocated) and the appropriateness of cost drivers.

Detailed records as to how the allocation of corporate overheads is calculated and allocated are to be available and shall meet the requirements of the Local Government Act and Finance Standards.

Competitive Neutrality Adjustments and Tax equivalent Payments

BA Managers, in association with the chief financial officer, will identify all material competitive neutrality adjustments and tax equivalent amounts to ensure that Council's BA prices meet full compliance with the principles of competitive neutrality.

Community Service Obligations

All directions from Council imposing additional costs (which a private operator could avoid) or requiring a BA to forgo revenue, will be in accordance with the Corporate Plan and identified as a Community Service Obligation (CSO). Council's CSO's will be fully identified and approved by Council in the Revenue Policy or Revenue Statement, setting out the policy objectives to be achieved; be fully costed on the most appropriate basis; be directly funded by Council to the BA; and be made transparent and reported in the Annual Report. BA Managers will be responsible, in conjunction with the chief financial officer, for the calculation of all CSO's.

BA's will develop key performance indicators for all CSO's establish ongoing monitoring of such performance standards and report to Council as part of the reporting on the Operational Plan.

Asset Valuation

BA's will adhere to the Council's Asset Valuation policy, the Local Government Finance Standards, and relevant Australian Accounting standards. In accordance



with this policy and standards, assets held by the BA having a limited useful life will be systematically depreciated over their useful lives.

For pricing purposes, the asset value will be adjusted by eliminating assets contributed by third parties and inefficient or excess assets. The purpose of the adjustments is to determine Council's investment in the businesses, adjusted for any investments which have subsequently been shown to be ineffective. The BA's may choose to use a renewals annuity for a Total Management Plan or Asset Management Plan as a substitute for depreciation, for the calculation of the full cost price. However, where there are any differences between the two methods, the Revenue Policy or Revenue Statement should include an explanation, particularly in relation to any unfunding of accounting depreciation.

Rate of Return

Council BA's will earn a rate of return on assets in accordance with the Local Government Act, Local Government Finance Standards and have regard to any Department of Local Government and Planning Bulletins. BA Managers have responsibility for recommending the appropriate rate of return for inclusion in the Revenue Statement.

Management Reporting

BA's are required to provide Council with a quarterly performance report in accordance with the Operational Plan. The report will be submitted to Council as soon as practicable at the conclusion of each quarter. The report will clearly document actual operating results for the quarter and the year to date and compare these results against the approved budget, any budget forecasts and the operational plan. In addition, non-financial performance indicators will be presented.

Each BA will present an annual report to Council after the end of the financial year, addressing such issues as customer services and achieving the financial and non-financial performance indicators as set out in the Operational Plan.

Continuous Improvement

Management and staff of the BA will be encouraged to undertake training in business management to ensure that the organisation keeps abreast of best practice and fosters a compliance culture.

Identification of Compliance Issues

The Council resolves to adopt the Business Management Compliance Manual. This manual outlines a process for identifying and managing compliance issues. The CEO, chief financial officer, chief administrative officer and BA Managers are responsible for nominated aspects of the procedures.

The CEO will ensure that arrangements are made to ensure that all BA Managers receive timely advice on relevant changes to laws, regulations and guidelines.

Operating procedures for Compliance

BA Managers are responsible for compliance with all aspects of this policy, including the Compliance Policy Procedures, within their areas of responsibility.



Overseeing Compliance

The BA Committee is responsible for overseeing the ongoing compliance of Council BA. Each BA is required to report to the BA Committee on at least a quarterly basis on its performance against the financial and non-financial performance targets specified in the Operational Plan. BA Managers are required to report to the Committee on any compliance issues and the implementation of corrective action. The BA Committee is also responsible for oversight of the competitive neutrality complaints policy and process.

Competitive Neutrality Complaints Process

This policy incorporates the Competitive Neutrality Complaints Policy and Process adopted by Council on [insert date]. The Chief Executive Officer is responsible for the implementation of this policy, reporting to the BA Committee on any complaints received, and progress on complaints being processed.

