Budget Framework Policy
<table>
<thead>
<tr>
<th>Reference Number:</th>
<th>CR16/7373</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type:</td>
<td>Council Policy</td>
</tr>
<tr>
<td>Responsible Director:</td>
<td>Director Corporate Services</td>
</tr>
<tr>
<td>Responsible Officer (s):</td>
<td>Manager Financial Services</td>
</tr>
<tr>
<td>Initial Adopted Date:</td>
<td>Council: 15 December 2015</td>
</tr>
<tr>
<td>Last Review Date:</td>
<td>15 December 2015</td>
</tr>
<tr>
<td>Next Review Date:</td>
<td>December 2018</td>
</tr>
</tbody>
</table>
# Contents

1  PURPOSE .................................................................................................................................................. 3  
2  DEFINITIONS ........................................................................................................................................... 3  
3  SCOPE .................................................................................................................................................... 3  
4  LEGISLATIVE AND CORPORATE REQUIREMENTS .............................................................................. 4  
5  POLICY STATEMENT ................................................................................................................................. 4  
6  REVIEW .................................................................................................................................................. 7  
7  ACCESS TO THE POLICY ....................................................................................................................... 7  
8  FURTHER INFORMATION ........................................................................................................................ 7
1 Purpose

1.1 The Budget Framework Policy (the “Policy”) provides guidance on roles and responsibilities, timelines, data collection, terminologies, workflows and other relevant components to assist Council, the Executive Leadership Team (ELT), Leadership Team (LT), Budget Managers (BM’s) and staff to understand their role in the process.

2 Definitions

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Sustainability</td>
<td>A Council’s long term financial performance and position is sustainable where planned long-term service, infrastructure levels and standards are met within planned increases in rates or disruptive cuts to services.</td>
</tr>
<tr>
<td>Recurrent Budget</td>
<td>The required budget under the control of the Chief Executive Officer for the continued day to day operations of Council and its base service level delivery. A summary of the income and expenditure is provided to Council. All budget figures will be realistic, based on best available information.</td>
</tr>
<tr>
<td>Project Budget/Operating Project Budget</td>
<td>Any proposed discretionary services where the expenditure is costed to the operating statement with no ability to capitalise to the capital expenditure budget.</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>Expenditure items that provide an economic life beyond the current year. Items are allocated between New/Upgrade and Replacement/Renewal as defined in the Australian Infrastructure Financial Management Guidelines.</td>
</tr>
<tr>
<td>Budget Bid</td>
<td>A submission made by a staff member of Council for consideration in the budget process. Budget Bids are made for both the Project Budget and Capital Expenditure requests that are not derived from the Infrastructure Asset Management Plans (IAMP).</td>
</tr>
<tr>
<td>Non-Discretionary vs Discretionary</td>
<td>Budget Bids are categorised into either Discretionary or Non-Discretionary. Non-Discretionary bids are based on previous commitments of Council (usually a resolution), IAMPS, legislative or contractual requirements. All bids not meeting these items are discretionary in nature.</td>
</tr>
</tbody>
</table>

3 Scope

3.1 This covers the annual budget requirements for City of Prospect.
4 Legislative and Corporate Requirements

4.1 The Budget Framework Policy is to be read and implemented in conjunction with Council’s other relevant policies, strategies and documents.

4.2 The Local Government Act 1999 S.123 and Local Government (Financial Management) Regulations 2011 are prescriptive in their requirements of Council’s budget and Annual Business Plan.

5 Policy Statement

5.1 The budget must be considered in conjunction with the Council’s Annual Business Plan and be adopted after 31 May and before 31 August for the ensuing financial year. The budget must comply with the standards and principles prescribed by the regulations under the Local Government Act 1999. The budget shall include budgeted financial statements, which must be presented, other than notes and other explanatory documentation, in a manner consistent with the Model Financial Statements.

The budget must also state whether the projected operating income is sufficient to meet projected operating expenses for the relevant financial year and include a summary of operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances.

5.2 As part of the budget process Council will prepare an Annual Business Plan which will address the activities the Council intends to undertake in the ensuing year to achieve its objectives and the key performance indicators that Council will use to assess its performance against its objectives.

5.3 Council's key performance indicators will include as a minimum estimates with respect to the councils operating surplus ratio, asset sustainability ratio and net financial liabilities presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

5.4 The basis for Council’s budget each year will, in its initial stages of development, be a zero based budgeting approach. The result will be evaluated and refined in terms of the Council’s Long Term Financial Plan, corporate strategic plans and objectives and within the framework of Council budget assumptions and Community Plan Outcomes.

5.5 The following budget principles will underpin the budget development:

1. Honest and Accountable

5.6 We will be honest and accountable in all aspects of the budget process, meeting the community’s expectations of transparency and openness with a reporting framework that supports and enhances this.

2. Strategic Approach

5.7 We will maintain a strategic approach to the delivery of all council services and capital works programmes. All expenditure decisions will align with the City of Prospect Community Plan outcomes.
3. Long Term Financial Planning

5.8 A 10 year Long Term Financial Plan will reinforce the delivery and achievement of Council’s long term strategic objectives in a sustainable manner. All programmes will be regularly reviewed to ensure they fit within the Council’s financial framework including key performance indicators which include the operating surplus ratio, net financial liabilities ratio and asset sustainability ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

4. Realistic Budgeting

5.9 All budget figures will be realistic, based on the best available information and utilise a zero based budgeting approach.

5. Meet Long Term Liabilities

5.10 Each budget will be fully funded and reconciled on an accrual and cash basis.

5.11 While individual years may fluctuate, the long term financial plan will be developed to achieve the average of the KPI targets (as identified in 5.3) across the ten years.

5.12 The Audit Committee will make recommendations to Council each year on appropriate KPI targets prior to the formulation of the Long Term Financial Plan and Annual Budget.

6. Affordable Rates

5.13 Rates will be set at an affordable level having regard to the City’s strategic directions and its social and economic objectives balanced against the community’s ability to pay. Sustainable rate increases avoid a “rates shock”.

7. Avoid Cost Shifting

5.14 We will resist pressure to accept cost shifting from other levels of government.

8. New Initiatives

5.15 All new initiatives will be evaluated in terms of meeting Council’s strategic directions. These will incorporate a cost benefit analysis which includes whole of life costing where the whole of life cost exceeds $30,000.

9. Asset Sales and Debt

5.16 The operational budget will be structured such that there is no reliance on asset sales to fund core services. Debt will be regarded as a tool to be used in a strategic perspective to achieve the provision of services to the community. Debt will be considered:

- In the context of the strategic objectives of Council
- In the context of long term financial forecasts and objectives
- As funding for long term infrastructure asset creation
- As a means of spreading the cost of infrastructure over the ratepayers who use it
As a mechanism to fund temporary cash shortfalls.

5.17 Council has determined as policy that there will be no new borrowings unless approved for essential asset replacement/renewal and/or extraordinary items.

10. Financial Control

5.18 We commit to ensuring that financial and other resources under our control will be used only for approved purposes and aligned with Council’s strategic framework and that all risks to Council’s finances are properly managed.

5.19 The budget performance will be reviewed by the Manager Financial Services as at the following dates in the relevant financial year:
   - 30 September (Budget Review 1)
   - 31 December (Budget Review 2)
   - 31 March (Budget Review 3)
   - 30 June (Budget Review 4)

5.20 The Director Corporate Services or Manager Financial Services will present to Council, as soon as practical after each of the above dates, a report that compares budgeted performance to actual performance with explanations for significant budget variances, seeking authorisation for these variances.

5.21 Quarterly actual performance will be compared to the revised budget which is the original adopted budget adjusted for changes endorsed as part of the budget reviews undertaken by Council.

5.22 For the 30 September and 31 March review the budget reviews should include a revised forecast of its operating and capital investment activities for the relevant financial year compared with estimates for those activities as set out in the budget. The format presented must be in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances.

5.23 For the 31 December review the budget review should include revised forecasts of each item shown in its budgeted financial statements for the relevant year compared with the estimates set out in the budget presented in a manner consistent with the Model Financial Statements. This budget review should also include revised forecasts for the relevant financial year of the council’s operating surplus ratio, net financial liabilities ratio and asset sustainability ratio compared with the estimates set out in the budget and presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

5.24 Once the audited financial statements for the financial year ending have been completed a comparison of those results to the original budget adopted by Council for that year will be prepared including reasons for material variances.

5.25 Budget reviews are an opportunity for budget managers in light of changed circumstances or new events that may have occurred subsequent to the time of budget adoption to be addressed.
5.26 Where the budget variance will have an impact on an item shown in its budgeted financial statements for the relevant year (presented in a manner consistent with the Model Financial statements) or vary the annual budget for a capital or annual operating project budget adopted by council as part of its budget deliberations the budget variance requested will be presented to the Council for approval with reasons for the variance.

5.27 The impact of the quarterly budget reviews must not materially erode the financial indicators position adopted as part of the original budget adopted by council based on an overriding principle that cost overruns must be funded by a commensurate cost saving and new projects or requests for service must be funded by a commensurate reduction in a project or service adopted as part of the original budget.

5.28 Surplus funds are used to retire existing debt or negate the need for future planned debt unless a specific project is identified in the budget review to either address a legislative issue, meet a cost overrun, bring forward planned works from Council’s adopted Asset Management Plans or to meet a Council resolution.

5.29 Any newly identified projects must be brought to Council as part of the annual budget process to ensure it is reviewed in line with all other submitted projects.

6 Review

6.1 The Policy will be reviewed each three years or as required by legislation.

7 Access to the Policy

7.1 The Policy is available for public inspection on Council’s website www.prospect.sa.gov.au and from Customer Service at the Civic Centre, 128 Prospect Road, Prospect SA 5082.

8 Further Information

8.1 For further information about this policy please contact:
Manager Financial Services
City of Prospect
128 Prospect Road
Prospect SA 5082

Ph 8269 5355
Email admin@prospect.sa.gov.au