

# Budget Framework Policy

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<b>Type:</b>	Council Policy
<b>Responsibility:</b>	Director of Corporate Services
<b>Responsible Officer (s):</b>	Manager Financial Services
<b>Initial Adopted Date:</b>	15 December 2015
<b>Last Review Date:</b>	October 2023
<b>Next Review Date:</b>	3 Years – October 2026
<b>Legislation:</b>	Local Government Act 1999 (SA) S.123 Local Government (Financial Management) Regulations 2011 Part 2
<b>Related Documents:</b>	Caretaker Policy City of Prospect Delegations Register Prudential Review Policy Risk Management Policy Treasury management Policy

# 1 Purpose

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), Management Team (MT), Budget Managers (BM’s) and staff to understand their role in the process.

# 2 Scope

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

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.

# 3 Definitions

*Financial Sustainability* - 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.

*Recurrent Budget* - 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.

*Project Budget/Operating Project Budget* - Any proposed discretionary services where the expenditure is costed to the operating statement with no ability to capitalise to the capital expenditure budget.

*Capital Expenditure* - 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.

*Budget Bid* - 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).

*Non-Discretionary vs Discretionary* - 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.

# 4 Legislative and Corporate Requirements

Local Government Act 1999 S.123; and

Local Government (Financial Management) Regulations 2011.

## 5 Policy Statement

The budget must be considered in conjunction with the Council's Annual Business Plan and be adopted after 31 May and before 15 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.

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.

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.

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.

The Long Term Financial Plan (LTFP) and Annual Business Plan (ABP) are prepared under a single framework that is reviewed annually and links to the key objectives of Council's Strategic plan. The framework includes a number of assumptions and variables underpin the construction of the Long Term Financial Plan and Annual Budget. The following ten budget principles will underpin the budget development:

### 1. Honest and Accountable

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

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.

Council can commit a maximum of two (2) year budget funding for a capital or operating project where it is identified during the development of the LTFP, and / or during the budgeting process that the project will;

- extend over a multiyear period given the size and nature of the development
- require budget commitment in advanced of the normal process, for planning and efficiency purposes and to ensure the best value for money.

The identified projects and funding commitment requirements will be highlighted by the Administration and specifically listed as part of the budget adoption recommendations.

### 3. Long Term Financial Planning

A 10 year Long Term Financial Plan will reinforce the delivery and achievement of Council's long term strategic objectives in a sustainable manner. The Long Term Financial Plan should be aligned to the Asset Management Plans thereby identifying funding requirements and assessing the adequacy of existing funding capacity.

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

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

### 5. Meet Long Term Liabilities

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

While individual years may fluctuate, the long term financial plan will be developed to achieve the average of the KPI targets across the ten years, in addition to individual year targets.

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

### 6. Rates Impost

Rates will be set at a 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

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

### 8. New Initiatives

All new initiatives will be evaluated in terms of meeting Council's strategic directions.

## 9. Asset Sales and Debt

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.

## 10. Financial Control

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.

### Budget Review

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), reported to Council following the receipt of Audited Financial Statements for the previous financial year.
- 31 December (Budget Review 2), to be presented to the Audit and Risk Committee before adoption by Council, and,
- 31 March (Budget Review 3),

The Director City Corporate or Manager Financial Services will present to Council, as soon as practical after each of the above dates in accordance with the Local Government (Financial Management) Regulations 2011, a report that compares budgeted performance to actual performance with explanations for significant budget variances, seeking authorisation for these variances.

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.

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.

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.

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.

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; or
- alter existing levels of service

the budget variance requested will be presented to the Council for approval with reasons for the variance.

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.

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.

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.

#### Carry forward Projects from the Previous Year

Funding approval for budgeted projects not expended at the end of any financial year is forfeited unless approval to carryover the project and associated budget allocation is granted by Council.

Operating activity budget for but not expended in a year shall not be carried forward to the following year, unless externally funded and the tied funding will be lost should it not be completed. Identifiable operating projects that will not commence or be substantially completed in the year that they have been budgeted, should be re-evaluated in the draft budget process of the following year.

Similarly, capital projects that have not been substantially commenced in one year should be re-considered against other competing priorities in determining the draft budget for the following year.

Where possible and appropriate, Budget Review 3 shall identify any projects unlikely to be completed by 30 June and removed or adjusted for that financial year, to enable consideration for inclusion in the draft Budget for the following year.

## **6 Review**

The Budget Framework Policy will be reviewed in line with Council's Corporate Governance Framework.

## **7 Access to the Manual**

The Budget Framework Policy is available for public inspection on Council's website [www.prospect.sa.gov.au](http://www.prospect.sa.gov.au) and from Customer Service.



## 8 Further Information

For further information about this Policy please contact:

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