Budget Framework Policy

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Corporate Plan:	*Goal 5 – Strong Internal Capability and Capacity*
Classification:	*Executive Services – Financial Management*
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Responsible Officer(s):	*Manager Corporate Services*
Council File Reference:	*7.11.1*
Applicable Legislation:	*Sec 123 Local Government Act 1999* *Local Government (Financial Management) Regulations 2011* *Accounting Standards* *Accounting Regulations*
Relevant Policies:	*Asset Accounting, Asset Management, Rate Policy*
Related Procedures:	*In accordance with relevant Legislative Acts*
Delegations:	*Chief Executive Officer/Manager Corporate Services*

1. Purpose

The Budget Framework Policy provides guidance on roles and responsibilities, timelines, data collection, terminologies, workflows and other relevant components to assist Council, the Audit and Risk Management Committee, the Executive Leadership Team (ELT), Managers/Supervisors and staff to understand their role in the process.

The objectives for this policy are:

a. the process, timing and considerations associated with the preparation and updating of the Long-Term Financial Plan (LTFP);
b. the process, timing and considerations associated with the development of budget documents;
c. the content, timing and process to be followed for reporting to Council on its performance against budget;
d. the scope and conditions associated with the approval of variations to budget allocations; and
e. the process and general guidelines in relation to the carrying forward of budgeted expenditure for projects into a future budget.

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.

2. Definitions

Annual Budget	The Council's statement of: a. its intended expenses, income and capital expenditure that give effect to its Business Plan for the reporting period; b. its cash inflows and outflows associated with intended operating, investing and financing activities; and c. its projected financial position at the end of the reporting period.
Budget Manager	A staff member responsible for managing a budget.
Business Plan	The three-year plan of services and programs to deliver outcomes to achieve the strategic community goals. The plan is updated annually.
Annual Financial Statements	The Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cashflow Statement (the Principal Statements) prepared in accordance with the Australian Accounting Standards, together with the notes and certification statements prescribed in the Model Financial Statements. (See Uniform Presentation of Finances)
Financial Indicators	The financial measures or ratios used to assess the financial performance of Council. The three principal financial indicators are the Operating Surplus Ratio, Net Financial Liabilities Ratio and the Asset Sustainability Ratio.
Financial Sustainability	Is when expenditure, income raising, and service level decisions are made such that planned long term service and infrastructure levels and standards can be achieved without unplanned increases in rates or disruptive cuts to services.
Long Term Financial Plan	The LTFP sets out the projected income and expenses for a period of ten years.
Materiality	In relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by Council or the discharge of accountability by the management of the Council.
Model Financial Statements	Is a template format for the presentation of the Annual Financial Statements for South Australian Councils, complying with the Australian Accounting Standards and Local Government (Financial Management) Regulations and approved by the Minister.
Net Lending/Borrowing	As specified in the Uniform Presentation of Finances represents the extent to which operating expenses (less depreciation) and capital expenditure exceed funding provided by operating revenue and amounts received specifically for new/upgraded assets. A net borrowing result increases Council's accumulated level of net financial liabilities, whereas a net lending result reduces the level of net financial liabilities.

Uniform Presentation of Finances	The high-level summary of both operating and capital investment activities of the Council prepared on a uniform and consistent basis as required by the Model Financial Statements.
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.

3. Principles

The following principles underpin the budget process.

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 time that available for use by ratepayers
- As a mechanism to fund temporary cash shortfalls.

Council has determined a policy that there will be no new borrowings unless approved for essential asset replacement new or upgrade ie Capital Policy to be read in conjunction with the Treasury Management Policy.

Cost Shifting
All attempts will be made to prevent cost shifting.

Fees and Charges
All Fees and Charges will be reviewed on an annual basis; however, they may not necessarily

be changed.

Financial Sustainability
The Annual Budget will be developed to align with the long-term financial plan and with consideration of the impact on the adopted target ranges for the financial indicators.

Grant funding
All grant funded projects are to be considered by management prior to submission of the funding application. Consultation with Council should occur for all large projects. All projects should consider the impact on the budget and the long-term financial sustainability taking into account the amount and timing of the council contribution.

Inter-generational
A principle where the aim is to achieve equity where the users of a service pay for that service and the cost is not imposed on a future generation.

Loan Borrowings
Loans will be used to fund long term asset creation and not to fund or support recurrent service delivery. Use of CADS to assist in cashflow.

Major Capital Works: Multi-Year Project Funding
Major Capital works should be considered over a budget cycle greater than twelve months, this allows sufficient time for the start-up, design, delivery and finalisation of the project.

Oncost and Full Cost Allocations
All overhead, oncost and internal costs and hire rates will be reviewed on a biannual basis to ensure that the methodology and underlying basis for any assumptions remains appropriate, and whether this is to be part or whole recovery of costs.

Realistic Budgets
All budget estimates will be based on the best available information to ensure that they are realistic whether the approach is zero-based or by using a budget base and making incremental adjustment as a result of new information.

Re-allocations of Budgets
Expense increases and the inclusion of new projects and initiatives are to support with clear identification of funding whether by re-allocation or new income sources. Large projects are to consider the conditions contained in the Prudential Policy.

Service Levels
Budget should be based on meeting agreed service levels or program activity commitments.

4. Policy Statement

Council seeks to be accountable in all aspects of the budget development, monitoring and performance and meet the community expectations of transparency, responsible financial management and reporting.

The Annual Business Plan and Budget shall be prepared by Council in accordance with Section 123 of the Local Government Act 1999 and Regulation 7, 9 and 10 of the Local Government (Financial Management) Regulations 2011.

The draft Annual Business Plan and Budget is subject to a period of public consultation prior to consideration and adoption by the Council.

Section 137 of the Local Government Act 1999 provides that Council may expend its funds as it thinks fit in the performance of its powers, functions or duties. All budgets and reviews of the budget must be adopted by the Council.

The Long-Term Financial Plan shall be prepared and updated consistent with Section 122 of the Local Government Act 1999.

The Business Plan and Budget is developed with due consideration of Council's management plans.

Planning considerations for preparation of draft budget include alignment with:

a. Community Plan;
b. Asset Management Strategy and Plan initiatives and objectives;
c. Capital Works Program;
d. Long Term Financial Plan projections;
e. Business Plan objectives;
f. Forecast Operating result at the end of the budget period;
g. Capacity to complete projects within the budget period and available resources;
h. Carryovers of uncompleted projects from previous year(s);
i. Major Capital works completed over multi-years;
j. Existing and projected debt levels;
k. Cash position and availability.

Statutory requirements for the budget financial statements:

a. Statement of Comprehensive Income;
b. Statement of Financial Position;
c. Statement of Equity;
d. Cash Flow Statement;
e. Uniform Presentation of Finances.

ANNUAL BUDGET

The primary elements to be considered in the development of the draft annual budget are:

a. Operating Income – rates, statutory and user charges, grants, investments, reimbursements, other
b. Operating Expenses – employee costs, contracts, materials, finance costs, depreciation
c. Capital – asset replacement, new assets, capital grants and contributions
d. Loan repayments, landfill liabilities, reserve transactions.

Preparation of the draft budget shall consider input from:

a. Ordinary/Special Meetings of Council
b. Strategic Workshops of Council
c. Audit and Risk Management Committee
d. Asset Management Committee
e. Community feedback and expectation
    1. Customer Service Requests
    2. Surveys
    3. Community Groups
f. Tour and inspections
g. Manager and Supervisor input

h. Management Team input, recommendations and budget bids.

Annual preparation schedule:

January:

- Review of proposed capital projects in Capital Works Program (Management).
- Identification of major influences to operating and capital budgets (Management).
- Preparation of budget bids (Budget Managers).

February:

- Review of capital project priority and capacity (IAWC).
- Preparation of draft operating budget (Management).
- Preparation of draft capital budget (Management).

March:

- Consideration of consolidated draft budget (Management).
- Review of consistency with Long Term Financial Plan, Rating Strategy and Financial Sustainability indicator targets (Audit and Risk Management Committee).
- Preparation of rating structure using provisional valuations and Rates Policy (Management).

April:

- Consideration of draft Budget and rating structure (Management).
- Preparation of draft Business Plan (Management).
- Consideration of draft Business Plan, rating structure and impacts (Council).
- Approval of the draft Business Plan and Budget for public consultation (Council).

May:

- Budget Review 3 (current year) impacts, including potential carryovers.
- Public consultation including public meeting.
- Review of draft Business Plan and Budget (Audit and Risk Management Committee).

June:

- Review of fees and charges (Management).
- Identification and consideration of current year budget carryovers.
- Update of draft budget due to new information and public consultation matters.
- Adoption of Fees and Charges (Council).

July:

- Consideration of community feedback (Council)
- Adoption of Business Plan and Budget, Rates Policy
- Declaration of Rates

August:

- Circulation of Business Plan Summary and Rate Notices to ratepayers.

BUDGET REVIEW AND REPORTING

Council Budget Review

The budget performance will be reviewed as at the following dates in the relevant financial year:

- 30 September (Budget Review 1), reported to the November Council Meeting
- 31 December (Budget Review 2), reported to the February Council Meeting
- 31 March (Budget Review 3), reported to the April Council Meeting

All budgets are estimates and so may need adjustment as new information comes to hand. The regular review of budget allocation is required during the year to allow Council to track performance against the budget financial targets.

A report shall be prepared for consideration by Management in early November, February and May and be presented to Council later in these months. The report shall consist of:

- a written report outlining the Original and Proposed Revised Budgets, material changes and impact analysis;
- a list of the capital projects, funding and summarised operating items, showing the Original Budget, Current Budget, Actual, %, Revised Budget and commentary on major exceptions;
- the full set of four principal statements, along with the Uniform Presentation of Finances and a revised forecast of the Financial Sustainability Indicators.

In addition, a consolidated Budget Review Report shall be prepared and presented to the next available Audit and Risk Management Committee meeting, with a focus on strategic and financial sustainability issues and performance.

A further budget review may be prepared in June, if significant variations to the current budget are likely, and where associated carryover funds may be required to be included in the draft budget for the following year.

Reporting of Major Projects and Variations

Progress reports
All identified major projects will have a progress report to Council on a minimum of a quarterly basis.

Variance reports
Council is to be made aware of any significant over or under expenditure of any major project or failed grant applications.

For each, a detailed report shall be prepared and presented to management and Council on each occasion where:

- the completion of any project has incurred gross expenditure in excess of $300,000;
- the completion of any project which has incurred under or over expenditure to that budgeted (20% or $20,000, whichever is greater);
- any other project where the circumstances warrant explanation or justification for a major budget variation;
- where it becomes apparent that the actual expenditure of a current project will significantly exceed the approved budget for the project;
- where budgeted grant funds are unavailable and a decision is required on whether to proceed without the expected funding.

Such a report shall be presented to Council at the earliest opportunity and no later than sixty days after the relevant event.

Completion reports
Project completion reports will be submitted within sixty days of practical completion (with an estimation of known costs that have not yet been paid). All projects are reported to the Strategy, Assets and Major Projects Committee on a bi-monthly schedule.

Approval of Variations outside the Scope of the Budget
Council approval must be sought and obtained before commitments are made that would result in major financial activity outside of budget allocations or delegated authorities.

In considering a request for a revision to its Budget, Council will consider the impact that an approval would have on the financial indicator targets established in Council's Original Budget. It will also consider the capacity to increase other income or reduce other expenditure (either of a corresponding operating or capital nature as appropriate) to offset the variation and the merit of doing so. Any revision of the budget also needs a revision of the Long-Term Financial Plan (LTFP) to ensure the budget and the LTFP aligns.

Where circumstances so warrant (e.g. for reasons of urgent necessity or emergency), the Chief Executive Officer may authorise variations in activity that are not within the scope of approved limits for budget items, providing that variations made do not:

- in aggregate, materially exceed the total budget allocation for that function/activity outlined in the Budget.
- materially impact on the quality, quantity, frequency, range or level of service previously provided for or implicitly intended to the original allocation; and
- impact on any explicit proposals Council has included in its Business Plan or has otherwise publicly committed to and accommodated in its budget.

Whenever such changes are made, the next Budget Review report shall include the variations and an explanation and rationale for the decision.

Carryover of Uncompleted Projects from the Previous Year
Funding approval for budgeted projects not completed at the end of any financial year is forfeited unless approval to continue the project is granted by Council. In the case of multi-year projects, a priority schedule needs to be completed to state which projects will receive priority in the next financial year.

Operating activity budgeted for but not expended in a year shall not be carried forward to the following year. Identifiable operating projects that will not commence or be substantially completed in the year that they have been budgeted, should be re-evaluated and included (if appropriate) in the budget for the following year at the time of its adoption.

Capital projects that have not been substantially commenced in one year should be considered against other competing priorities in determining whether it should be included in the budget for the following year.

As part of Budget Review 3 (to 31 March) any projects unlikely to be completed by 30 June are to be identified and the budget allocation removed or adjusted for that financial year, to enable consideration for inclusion in the draft Budget for the following year.

Multi-year Capital Works projects that have commenced before 30 June and not finalised are to be included (if appropriate) in the budget for the following year.

Executive Budget Review
A Financial Report shall be presented every month to Executive showing Year to Date information from July up to the end of the previous month. The Report shall compare the Actual expenses and income against the Original and Current Budgets and take the form of the Uniform Presentation of Finances, include detail of capital projects, cash and investment movements and the financial sustainability indicators.

Budget Managers are to monitor the budgets for which they have responsibility and escalate any significant issues to management. At the end of each month staff with budget responsibility will review the budget variances with the Manager, Corporate Service and also advise their Manager or Director of any concerns or anomalies. Directors should bring any major issues to the attention of the CEO as soon as they are identified.

END OF YEAR REPORTING

A preliminary end of year report shall be presented to SMT and Council in September each year. The report will provide preliminary comparison of budget versus actual results (subject to final end of year adjustments and audit) for the following:

- Statement of Comprehensive Income
- Uniform Presentation of Finances
- Financial Indicators
- Major items of variation.

The Audit and Risk Management Committee shall review the Annual Financial Statements and meet with the Council's external auditors to discuss any relevant issues.

Following audit and finalisation of the Annual Financial Statements, a report on the financial results in the form of a Financial Outcomes Report shall be presented to an Ordinary Meeting of Council to compare budgets against the audited actual results for the previous financial year, in a format consistent with the Model Financial Statements.

The Annual Financial Statements and the Financial Outcomes Report shall be presented to an Ordinary Meeting of Council following receipt of the auditors' audit opinion and review by the Audit and Risk Management Committee. The audited Annual Financial Statements shall be included as an appendix to Council's Annual Report.

LONG TERM FINANCIAL PLAN

A Long-Term Financial Plan will be prepared and maintained by Council in accordance with Section 122 of the Local Government Act 1999.

The Long-Term Financial Plan will include ten-year projections for operating expenses and income, rates, capital investment and grants, loans and repayments, reserve transactions and other liability transactions.

The following objectives and principles shall be generally recognised in the preparation and review of the Long-Term Financial Plan:

Preparation with reference to:

- Community Plan
- Asset Management Plan (and Capital Works Program)
- Rates Policy and Rating Review as referred in the Annual Business Plan.
- Treasury Management Policy.

Operating Activities:

- Facilities and services reasonably reflect community demand and expectation.

Existing Assets:

- Fund replacement and renewal primarily from annual operating revenue (i.e. cost of depreciation)
- Address any identified “backlog” of asset renewal and replacement
- Refer to the Capital Works Program (Asset Management Plan) to determine priorities, costings and timeframes
- Consider rationalisation and upgrading of existing assets.

New Assets:

- Fund new assets and upgrades to existing assets from grants, surplus or rationalised asset sales, developer contributions and operating surpluses. New loans should be used for major, long-lived assets only
- All projects to be assessed to ensure appropriate priorities are assigned
- Consider and encourage infrastructure assets provided by developers at no cost
- Refer to the Capital Works Program (Asset Management Plan) to determine priorities, costings and timeframes
- Consider full life cycle costs and replacement implications.
- To consider any increase in rates to fund assets.

Debt Management:

- Minimise new loans, use only to fund major, long term projects
- Consider future repayment implications – impact on future budgets and rate increases
- Utilise operating surpluses and excess cash held to minimise future borrowings
- Utilise mix of fixed term, variable terms and cash advance debentures.

Financial Reserves:

- Minimise use of specific purpose reserves
- Use reserves only
    - For the future replacement of infrastructure assets
    - To identify funds received from third parties for specific purposes
    - To keep a record of funds received and expended for specific purposes.

Financial Indicators:

- Ensure that responsible financial indicator targets are regularly set and reviewed.

Plan Review:
The Long-Term Financial Plan shall be reviewed every year following the adoption of the Business Plan and Budget, for presentation to Council by 31 December.

The annual review will focus on significant variations and the inclusion/exclusion of projects following changes in Council direction. A full review of the Long-Term Financial Plan will be undertaken following a review of Council’s Community Plan and its Asset Management Plan,

within twelve months of each Council election.

The Audit and Risk Management Committee shall review and provide feedback to Council on its Long-Term Financial Plan, financial sustainability and its consistency with other strategic management plans of the Council.

ROLES AND RESPONSIBILITIES

The Council Elected Member body is responsible for approval of the Budget Framework Policy.

The Council Audit and Risk Management Committee is responsible for review of any proposed changes to this policy as part of its role to review the effectiveness of the Internal Control system, in accordance with its Terms of Reference.

The Directors, Managers and Supervisors are expected to promote a best practice approach in support of effective business practices and properly functioning budgetary controls.

Staff must conduct their duties in accordance with this policy and associated frameworks, procedures and practices and are expected to undertake training in aspects of budgetary control that directly affect their own work procedures.

5. Confidentiality

Any information provided will be treated as strictly confidential. Information provided to the Council's Chief Executive Officer (CEO) will be securely retained within Council's records.