

**FINANCIAL MANAGEMENT POLICY**

Policy No.	C86	Adoption Date:	Council Meeting 18 August 2021
Revision Date:	August 2025		
Directorate:	Performance & Innovation	Department:	Financial Strategy
<b>GOOD GOVERNANCE FRAMEWORK – OVERARCHING PRINCIPLES</b>			
Supporting Pillar:	Pillar 4 - Structure, Systems & Policies		
Link to Pillar:	The Financial Management Policy strengthens Council's governance framework by establishing sound financial management directions to remain financially sustainable, while also meeting its statutory obligations.		

**1. PURPOSE**

The purpose of the *FINANCIAL MANAGEMENT Policy (C86)* (the Policy) is:

- 1.1.1. To support transparency and accuracy in all of Council's financial activities and ensure compliance with financial reporting requirements.
- 1.1.2. To comply with the financial management principles outlined in Division 4 of the *Local Government Act 2020* (the Act), including but not limited to Section 101.
- 1.1.3. To comply with various Acts, regulations, accounting standards and Australian Tax Office directions and regulations.

This Policy has been developed as South Gippsland Shire Council (Council) oversees an annual operating budget of approximately \$80M and is responsible for \$600M of assets on behalf of the community. It is imperative that Council responsibly manage these finances in order to provide intergenerational services and facilities that are needed for the community and meet its statutory obligations now and into the future.

**2. SCOPE**

The scope of this Policy applies to Council and staff when making decisions with financial implications.

This Policy outlines how Council meets its responsibility of sound financial management in order to remain financially sustainable and comply with statutory obligations.



### 3. POLICY PRINCIPLES

#### **Financial Management Principles – Section 101 of the Act**

Section 101 of the Act sets out the financial management principles required of Council.

- 3.1. This Policy outlines how Council meets its responsibility of sound financial management in order to remain financially sustainable and comply with statutory obligations.
- 3.2. Financial risks must be monitored and managed prudently having regard to economic circumstances.
- 3.3. Financial policies and strategic plans, including the *Revenue and Rating Plan*, must seek to provide stability and predictability in the financial impact on the municipal community.
- 3.4. Accounts and records that explain the financial operations and financial position of the Council must be kept.
- 3.5. Further, for the purposes of the financial management principles, Section 101 addresses financial risk, includes any risk relating to the following:
  - 3.5.1. the financial viability of the Council;
  - 3.5.2. the management of current and future liabilities of the Council; and
  - 3.5.3. the beneficial enterprises of the Council.

#### **Financial Governance**

- 3.6. Council will ensure that systems, processes and controls are comprehensively embedded into the organisation to make certain the financial resources of the Council are properly managed, with a view to maintaining the ongoing financial sustainability of the Council.
- 3.7. The Act provides the statutory framework for which Council must comply. Part 4 of the Act sets out the requirements related to Planning and Financial Management. This Part includes the following divisions:
  - 3.7.1. Division 1 – Strategic planning
  - 3.7.2. Division 2 – Budget processes
  - 3.7.3. Division 3 – Reporting
  - 3.7.4. Division 4 – Financial management
- 3.8. This Policy determines Council's approach to ensure best practice financial management and compliance with the above divisions.



## Strategic Financial Management

3.9. Integrated Planning Framework - with the introduction of the Act, Councils are required to take an integrated approach to strategic planning and reporting. This approach recognises that Council plans and policies should not exist in isolation and that they should be connected.

3.10. The key components of the integrated framework are defined in the Act and include:

Component	Outlook	Term	Section of the Act 2020
Community Vision	Long term	10+ years	88
Council plan	Medium term	4 years following a general election	90
Financial plan	Long term	10+ years	91
Asset plan	Long term	10+ years	92
Budget	Medium term	rolling 4 years	94
Revenue and rating plan	Medium term	4 years following a general election	93
Workforce plan	Medium term	At least 4 years	46(4)
Annual report	Short term	Annually	98

3.11. The Act is principles-based which signals a transfer of responsibility and accountability to each individual Council and sets the framework for long-term improvement of sector good governance that considers and is responsive to local community needs.<sup>1</sup> This Policy seeks to define Council approach to financial management within this context.

### Financial Sustainability Indicators

3.12. In order to meet Council's obligation of responsible financial management, it is important to assess the financial risks when developing forward looking plans and policies. As stated in *Point 3.9 - Integrated Planning Framework*, the budget and financial plan are not to exist in isolation and therefore, when developing policies and plans such as the Council Vision and Council Plan, financial sustainability must be considered.

---

• <sup>1</sup> <https://engage.vic.gov.au/local-government-act-2020/integrated-strategic-planning-and-reporting-framework-workbook><sup>1</sup>



3.13. Council is committed to remaining in a strong financial position, and utilises the *Victorian Auditor General's Office (VAGO)* financial sustainability indicators when making assessments regarding financial risks and forward planning. Council's *Financial Plan* contains the parameters in which Council budgets and considers what level of risk is acceptable.

3.14. Financial sustainability indicators include:

Indicator	Description
<b>Net result margin (%)</b>	Measures the net result as a percentage of total revenue. The larger the percentage, the stronger the result.
<b>Adjusted underlying result*</b>	Measures the ability to fund on-going operations and contribute to capital expenditure from the net result.
<b>Liquidity (ratio)</b>	Measures the ability to pay existing liabilities in the next 12 months.
<b>Underlying Working Capital (ratio)</b>	Similar to the Liquidity ratio, however excludes 'cash backed' internal reserves.
<b>Internal financing (%)</b>	Measures the ability to finance capital works from generated cashflow.
<b>Indebtedness (%)</b>	Assesses the ability to pay principal and interest on borrowings when they are due from the funds it generates.
<b>Capital replacement (ratio)</b>	Compares the rate of spending on new infrastructure, property, plant and equipment with depreciation.
<b>Renewal gap (ratio)</b>	Compares the rate of expenditure on renewing, restoring and replacing existing assets with depreciation.

Note: \*The adjusted underlying result indicator adjusts the council's revenue and operating result to exclude income which is related to capital expenditure (non-recurrent capital grants, non-monetary asset contributions, other contributions). This allows the indicator to measure the underlying operating performance of council in the ordinary course of business. To remain financially sustainable a council should generate an underlying operating surplus, as operating deficits cannot be sustained in the longer term. It is vital that this is maintained before funding projects.

### **Budget Process**

3.15. The budget process to which Council must comply to is outlined in Division 2 of the Act. Council must:

3.15.1. Adopt a budget for each financial year and the following three years by 30 June (or other date fixed by the *Minister for Local Government*). The budget must give effect to the Council Plan and state the major initiatives to be undertaken and contain required disclosures for rating, financial statements and services funded;

3.15.2. Be developed in accordance with Council's financial management principles and in line with its community engagement policy.



## **Budget Parameters**

- 3.16. Council is committed to maintaining a balanced or surplus budget position that is financially sustainable in the longer term. As such, it will reflect the financial sustainability measures outlined in Point 3.14 above.
- 3.17. The budget will clearly differentiate between:
- 3.17.1. Council's 'base operating budget' to deliver on services;
  - 3.17.2. Staffing establishment;
  - 3.17.3. New or once off initiatives; and
  - 3.17.4. Capital Works Program.
- 3.18. Budget Management Procedures/Guidelines that support this Policy and provide guidance in the development of the Annual Budget, are approved by the Chief Executive Officer.

## **Budget Principles**

In order to ensure that Council remains financially sustainable, the budgeting principles will also include:

- 3.19. Grant funded budgets
- 3.19.1. Grant funding opportunities may be pursued where the benefits are considered to be advantageous to Council and the community, having considered the long-term financial implications and responsibilities to be carried by Council and potential undesirable cost shifting outcomes.
- 3.20. Operating Budget
- 3.20.1. The operating budget shall, as far as practicable, differentiate between the base and discretionary spend. In general terms employee costs are incorporated in the base spend, while new initiatives are prioritised and considered separately on their merits.
- 3.21. Capital Budgets
- 3.21.1. Capital budgets using Council funds, loans, capital grants and contributions will fund the *Capital Works Program*. This Program will differentiate expenditure required for renewal of existing assets/infrastructure that form a base level of expenditure, from upgrade/expansion projects and new major capital works.
  - 3.21.2. The Capital budget will fund the Program which has been developed in line with Council's *Capital Works Policy (C85)*.
  - 3.21.3. Material changes to Council's adopted capital works budget are to be referred to the Quarterly Budget Reviews for consideration.



- 3.21.4. Where funds have been included for works in the approved *Asset Management Plan*, they may be re-prioritised for timing of delivery within an asset class.

### **Rating and Revenue Strategy**

- 3.22. Council is required to adopt its *Revenue and Rating Strategy* every four years. The adopted *Revenue and Rating Strategy* will include (but not limited to):
  - 3.22.1. Council's approach for setting discretionary fees and charges;
  - 3.22.2. Specifying differential rates; and
  - 3.22.3. Associated regulatory disclosures.

### **Long Term Financial Plan**

- 3.23. Section 91 of the Act requires Council to adopt a *Financial Plan* of at least 10-years by 31 October in the year following a General Election. It must as a minimum:
  - 3.23.1. Be developed in accordance with Councils deliberative engagement processes.
  - 3.23.2. Include statements showing how Council will fund its strategic plans, including the Council Plan.
  - 3.23.3. Define and meet the determined levels of risk in accordance with the financial sustainability ratios as determined by VAGO.
- 3.24. The development of the *Financial Plan* represents the output of the following strategy areas, which when combined, produce the financial direction for Council:
  - 3.24.1. Borrowing Strategy
  - 3.24.2. Revenue and Rating Strategy
  - 3.24.3. Capital works projects
  - 3.24.4. Asset management strategies
  - 3.24.5. Reserves
  - 3.24.6. Operational requirements
- 3.25. In order to maintain financial sustainability, Council will have to continue to critically evaluate its level of service provision and may have to make a series of difficult decisions, particularly where costs in services part funded by *State* and *Federal Government* increase by an amount greater than Council's ability to increase general revenues.
- 3.26. Council is committed to reviewing, updating and adopting the *Financial Plan* in line with the Budget each year.



## Reporting

- 3.27. Quarterly Budget Report – s.97 of the Act requires the Chief Executive Officer to present a quarterly budget report to the Council at an open Council Meeting. This report must include:
- 3.27.1. Comparison of budget to actual results;
  - 3.27.2. Explanation of material variations; and
  - 3.27.3. Any other matters prescribed by the Regulations.
- 3.28. Quarter Two Budget Report must contain a statement by the Chief Executive Officer if there is the need to adopt a Revised Budget. It also includes a mid-year budget review that provides the opportunity for the Council to:
- 3.28.1. Review its financial performance to date and make any adjustments to the budget due to factors which may have arisen since the time of adoption.
  - 3.28.2. The opportunity to direct any 'surplus' funds to key Council initiatives or reserves for future use or make decisions about reducing Capital or other expenditure in line with available funds.
- 3.29. Annual Report – s.98 of the Act details the requirements for the Annual Report including the Report of Operations and audited Performance and Financial Statements.
- 3.29.1. In preparing the Financial Statements, Council must also comply with the *Australian Accounting Standards* and achieve an unqualified audit opinion.
  - 3.29.2. When producing these statements, Council will utilise the *Local Government Victoria's Local Government Model Financial Report* as well as adhering to the *Local Government Better Practice Guides* for the *Performance Statement* and *Report of Operations*.

## Community Engagement

- 3.30. The development of the *Budget, Rating and Revenue Plan* and the *Long-Term Financial Plan* will be undertaken in accordance with Council's *Community Engagement Policy (C06)* and using deliberative engagement activities where required.
- 3.30.1. These engagement activities may be undertaken and/or informed by engagement activities undertaken with the development of the *Community Vision*, *Council Plan* or other strategic plans developed by Council.



## 4. RISK ASSESSMENT

This Policy mitigates Council's risks as described below:

### 4.1. Financial

For the purposes of the financial management principles s.101(2) of the Act articulates that 'financial Risk' includes any risk relating to the following:

- 4.1.1. The financial viability of the Council;
- 4.1.2. The management of current and future liabilities of the Council;
- 4.1.3. The beneficial enterprises of the Council.

## 5. IMPLEMENTATION STATEMENT

### 5.1. Human Rights Charter

This Policy has considered the *Charter of Human Rights and Responsibilities Act 2006* in its development.

### 5.2. Gender Equality

This Policy has considered the *Gender Equality Act 2020* in its development.

## 6. MONITORING, EVALUATION AND REVIEW

- 6.1. This Policy will be reviewed and adopted by Council on a four-year cycle, or as otherwise required by legislation or Council.

## 7. REFERENCE DOCUMENTS

Legislative Provisions	Charter of Human Rights and Responsibilities Act 2006 Freedom of Information Act 1982 Gender Equity Act 2020 Local Government Act 2020 Local Government Act 1989 (where applicable) Local Government (Planning and Reporting) Regulations 2020 Local Government (Planning and Reporting) Regulations 2014
Council Supporting Documents	Financial Management Plan 2020
Related External Documents (optional)	Accounting Standards issued by the Australian Accounting Standards Board (AASB) Australian Taxation Office legislation, directions and regulations Better Practice Guidelines issued by Local Government Victoria

## 8. REVISION HISTORY

Version	Approved By	Approval Date	Sections Modified	CM9 Ref#
1.0	Council	18 August 2021	New Policy	D7046321