



**Local Excellence**

Councils Working Together for Communities

*Financial Sustainability*

# Information Paper 18

# Financial Policies and Procedures

Revised January 2012



## Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

## Why are financial policies and procedures needed?

Very often the policy basis underpinning Council decision-making in many areas is implicit, guided by a common understanding, but not documented and formally adopted by the elected body. This does not make for transparency and consistency in decision-making, does not demonstrate that the issues have been properly considered and leaves Councils vulnerable to criticism, rightly or wrongly, that their financial management practices are not as good as they should be.

An explicit set of policies and procedures are necessary tools for sound financial management, providing the following benefits:

**Public accountability and transparency** – Policies and procedures publicly document the Council's position on which it will base its decisions. They demonstrate the Council's commitment to sound financial management and establish transparency for audit purposes.

**Ensuring a considered approach** – The formal adoption of carefully documented policies and procedures helps ensure that the Council's position on each issue has been properly considered, having regard to alternative approaches and the wider policy and statutory context.

**Consistency of decision making** – By adopting clear Council policies and procedures a consistent basis for decision-making over time is established. While a Council can make a decision contrary to its adopted policy, it needs a deliberate decision to do so which helps to ensure that proper consideration has been applied.

**Clear guidance for staff** – Explicit policies and procedures set out the required approach, responsibilities and processes for staff to properly administer the financial business of the Council in accordance with its wishes and consistent with statutory requirements and sound financial management practices. This in turn protects staff from allegations of financial mismanagement as long as the policies and procedures are followed.

## What is the difference between a Council policy and a procedure?

Terminology used by different Councils, and more widely by other organisations, varies in the names used for different elements in the policy framework. Standard definitions are generally not widely adopted. While it would be simpler if all Councils used exactly the same terminology, it is more important that a Council is clear and consistent in its use of terms.

## Council Policy Framework



In the Local Government context, a useful and basic distinction can be made between policies and procedures based on the respective responsibilities of the elected Council and of the CEO / administration. One of the basic responsibilities of a Council is to set *policy* consistent with its strategic management plans for its area. Giving effect to those policies is then the responsibility of the CEO and administration, and this will normally involve setting clear and detailed *procedures* to be followed by staff.

**Council Policy** – sets out the elected Council’s position on an issue or set of issues to guide decision-making. It should be a higher level statement of direction – relatively short and concise. It should not include the type of detail normally found in procedures. It needs to be formally adopted by the Council. A suggested model format for a Council policy document is shown in Attachment 1. As noted further on in the paper however, a Council’s Strategic Management Plans, Annual Business Plan and other strategic documents also contain key information supporting its financial policy framework.

**Procedure** (also may be called operating guidelines) - sets out the specific staff responsibilities and processes required to implement a particular area of Council policy. Procedures can be as detailed as necessary to clearly specify what staff should do in each situation relevant to the policy. Procedures are not required to be adopted by Council, though they may be noted by Council when adopting the policy. They are essentially guidelines adopted by executive management to give effect to policy. So long as updates/revisions to procedures remain consistent with the adopted Council policy they can be made without Council approval. A suggested model format for a procedures document is shown in Attachment 2.

While this simple distinction gives a good basis for a sound financial policy framework it should be recognised that there will be exceptions, such as:

- Rarely, some procedures will be of such direct impact on ratepayers that it may be appropriate that they be endorsed by the Council.
- In some cases procedures will give effect to what may be called administrative policy statements – i.e. policy statements relating to aspects of administrative practice that are clearly responsibilities of the CEO rather than the Council (e.g. use of credit cards).

Such exceptions can be accommodated without undue difficulty in a robust and pragmatic policy framework.

### What does the Act require?

This Information Paper does not list all policies that a Council must have, under the [Local Government Act 1999](#) (“the Act”). This paper is confined to policies that are relevant (directly or indirectly) to financial management.

Nor does this paper deal with specific Plans that a Council must have. [The Act](#), at section 123, requires Council to adopt and publish an Annual Business Plan. Section 122 requires adoption of a Long-term Financial Plan<sup>1</sup> and an Infrastructure and Asset Management Plan<sup>2</sup> to form part of the Council's suite of strategic management plans.

The *financial policies* that are required under [the Act](#) are:

**Council as a purchaser.** Often referred to as a 'Contracts and Tenders' or 'Procurement' policy, this is required by section 49 of [the Act](#). It should deal with the contracting out of services, the use of competitive tendering and/or other measures to ensure that services are delivered cost-effectively. The policy should also specify the Council's attitude towards the use of local goods and services. It is essential to the probity of the Council's transactions. The LGA has published a model policy.<sup>3</sup>

**Council as a seller.** Such a policy, required by section 49 (1)(d) of [the Act](#), must give guidance on the sale or disposal of land or other assets, to ensure transparency and accountability. The LGA has published a model policy.<sup>4</sup>

**Prudential Management.** Such a policy, required by section 48 (aa1)(d) of [the Act](#), must give guidance to ensure that, in assessing any project (no matter how large or small) the Council acts with due care, diligence, foresight; and identifies and manages the risks associated with the project. Following the Council's prudential management policy should ensure that the Council makes informed decisions, and is accountable for the use of public resources. The LGA has produced a model policy.<sup>5</sup>

**Internal Controls.** Such a policy, required by section 125 of [the Act](#), should assist the council to carry out its activities in an efficient and orderly manner to safeguard the council's assets, and to secure (as far as possible) the completeness, accuracy and reliability of Council records. An effective internal control policy will also serve to protect the Council from fraud and corruption. The LGA has issued a model policy.<sup>6</sup>

### Other required policies

Section 132A(a) of [the Act](#) requires a Council to have policies, practices and procedures to ensure compliance with any statutory requirements; and to achieve and maintain standards that reflect good administrative practices. There is no need for a separate 'compliance and standards policy' or a separate 'Governance' policy. Rather, a recognition of statutory requirements, good governance and administrative practices should be embedded in all policies and procedures.

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<sup>1</sup> See LGA Financial Sustainability Information Paper No. 8: *Long-Term Financial Plans* at <http://www.lga.sa.gov.au/goto/fsp>

<sup>2</sup> See LGA Financial Sustainability Information Paper No. 6: *Infrastructure and Asset Management* at <http://www.lga.sa.gov.au/goto/fsp>

<sup>3</sup> A model procurement policy is published on the LGA's "Manuals, Codes and Guidelines" web page: <http://www.lga.sa.gov.au/site/page.cfm?u=204>

<sup>4</sup> A model policy on the sale or disposal of land or other assets is published on the LGA's "Manuals, Codes and Guidelines" web page: <http://www.lga.sa.gov.au/site/page.cfm?u=204>

<sup>5</sup> A model prudential management policy is provided as an Attachment to LGA Financial Sustainability Information Paper No. 27 – *Prudential Management* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>6</sup> A model internal financial controls policy is provided as an Attachment to LGA Financial Sustainability Information Paper No. 21 – *Internal Financial Controls* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

While not directly related to financial management, some policies required under [the Act](#) could have an indirect effect on the Council's financial performance, if only because the commitments made in these policies require resourcing to implement, to the standards or levels that the Council requires. These other policies include:

**Review of decisions.** Section 270 (a1) of [the Act](#) requires a council to have “policies, practices and procedures” for dealing with

- any reasonable request for the provision, or improvement, of a service; and
- complaints.

**Public consultation policy.** Section 50 requires a public consultation policy, and sets out the minimum requirements for such a policy, but a Council may choose to exceed the minimum, requiring the allocation of additional resources.

**Training and development policy** for elected members. Section 80A requires such a policy.

**Order-making policy.** Section 259 requires a Council to have a policy on the issuing of orders about hazards, nuisances, and unsightly conditions on private land.

### Recommended policies

Apart from the policies that are required under [the Act](#), a number of other financial policies are also recommended, for the reasons outlined above. Consistent with the recommendations of the 2005 [Independent Inquiry into Local Government Financial Sustainability](#) these policies include:

**Service Levels and Resource Allocation.** This should clearly set out the roles and functions that the Council is prepared to adopt, the specific services that it will provide, the level of service and means of delivery.<sup>7</sup>

**Rating.** In light of the sensitivity of the Council's setting and administration of rates, a full and explicit policy detailing the basis on which the rate has been set, advice on rate rebates and concessions allowed, methods of payment, advice on postponement of rates for Seniors Card holders etc. is strongly recommended. Section 123 of [the Act](#) requires that certain details about rates policy must be included as part of the Council's Annual Business Plan.<sup>8</sup>

**Funding** (also known as Revenue and Financing). This should set out the Council's position on how it intends to pay for its services and infrastructure having regard to the sources of funds available and the beneficiaries of the expenditure.<sup>9</sup>

**Treasury Management.** This policy should set out the ways in which the Council's borrowings are raised and cash and investments are managed. It should also set out how the Council intends to manage its interest rate exposures.<sup>10</sup>

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<sup>7</sup> Three model Service Level Policies have been provided as Attachments to LGA Financial Sustainability Information Paper No. 26 – *Service Range and Levels* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>8</sup> A Model Rating Policy is included as an Attachment to Financial Sustainability Information Paper No. 20 – *Rating Policy and Other Funding Options* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>9</sup> A Model Funding Policy is included as an Attachment to Financial Sustainability Information Paper No. 20 – *Rating Policy and Other Funding Options* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>10</sup> A Model Treasury Management Policy is included as an Attachment to Financial Sustainability Information Paper No. 15 – *'Treasury Management'* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

**Accounting.** This policy should set out a Council's significant accounting policies. It should be based upon Note 1 of the Model Financial Statements available on the [finance page of LGA's web site](#).

**Delegations.** This policy supports Council's Governance policy and specifies the delegations made by Council. For more information, see the LGA's [Delegations Information Paper](#).

**Whistleblower Protection.** This policy should clearly set out the arrangements that Council has in place for individuals to raise concerns, in confidence, about possible corrupt or illegal conduct in financial reporting or other matters. A model Whistleblower Protection Policy is [available on the LGA web site](#).

**Reimbursement of Council Members' expenses.** Section 77 of [the Act](#) permits (but does not require) a Council to have a policy on this matter.

Other recommended policies include purchasing, asset accounting and depreciation.

### **Further optional policies**

A Council with the resources to do so, and the commitment to extend its range of policies, could consider additional policies such as:

#### General Financial Management

- Statutory Financial Reporting
- Budgeting Reporting and Amendment Policy<sup>11</sup>
- Procedures External Audit
- Internal Audit
- Fraud Prevention (although this should be addressed within a Council's internal control procedures)
- Financial Authorisations
- Payroll
- Goods and Services Tax
- Fringe Benefits Tax
- Bank Account(s) and Banking Services
- System Backup
- Computer System Security

#### Debtors

- Receipt of Payments
- Debt Collection
- Provision for Doubtful Debts
- Bad Debts/Write Offs

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<sup>11</sup> A Model Budget Reporting and Amendment Policy has been provided as an Attachment to LGA Financial Sustainability Information Paper No. 25 – *Monitoring Council Budget Performance* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

### **Exclusions from this list**

This paper does not refer to every policy that a Council may or must adopt under [the Act](#). It includes only those policies that most directly relate to a Council's *finances*.

A previous version of this Information Paper suggested that it was necessary for a Council to have an Infrastructure and Asset Management Policy. However, such a policy should be incorporated into the Council's broader policy on *Services – Range and Levels*.<sup>12</sup>

Section 132A (a) requires a Council to have policies, practices and procedures to ensure compliance with any statutory requirements; and to achieve and maintain standards that reflect good administrative practices. It is not considered essential to have a separate 'compliance and standards policy' or a separate 'Governance' policy. Rather, a recognition of statutory requirements and good administrative practices should be embedded in all policies and procedures.

### **What are the issues for Councils?**

Councils should have in place a comprehensive, explicit and carefully considered financial policy framework: essential for public accountability, transparency and consistency in Council decision making.

A Council should adopt a suite of financial policies, each clearly documenting its position on an issue or set of issues. These should be supported by a comprehensive set of documented procedures detailing the specific staff responsibilities and processes to be followed to give effect to the policies and ensure that sound financial management practices are in place.

Without such documented financial policies and procedures Councils are open to criticism, rightly or wrongly, that their financial management lacks transparency and is not as good as it could be. The requirement on Local Government auditors to provide an opinion on the adequacy of a Council's internal financial controls<sup>13</sup> further emphasises the need for an explicit, clearly documented, framework of policies and procedures.

### **Acknowledgements**

The contribution of Mr Doug Hayes – Urban and Strategic Planner in the preparation of this paper is acknowledged.

This project has been assisted by the [Local Government Research and Development Scheme](#).

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<sup>12</sup> See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>13</sup> See Financial Sustainability Information Papers:

- No. 4: *Specifications for External Audit*; and
- No. 21: *Internal Financial Controls*; and

at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

## Attachment 1: Suggested Model Council Policy Format and Content<sup>14</sup>

**POLICY NAME:** *[Insert Policy Name]*

Approved by Council on: *[Date]*

Subsequent Amendments: *[Date] [Authorisation]*  
*[Reference to aspects amended]*

Review Date: *[Date of next review]*

Document Owner: *[Position responsible for maintenance of the document]*

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### CONTENT

#### 1. INTRODUCTION

*[Outline context, scope and purpose of the policy.]*

#### 2. POLICY OBJECTIVES

*[Clearly state what the policy is intended to achieve.]*

#### 3. POLICY STATEMENTS

*[Clearly state the position of the Council in relation to each relevant aspect of the issue. Concise explanatory notes can be included with each policy statement if necessary to assist future review should circumstances change.]*

#### 4. LEGISLATIVE REQUIREMENTS AND CORPORATE POLICY CONTEXT

*[Identify relevant legislative requirements. Identify related Council Policies and Strategies]*

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<sup>14</sup> For an example model policy see Financial Sustainability Information Paper 15 – *Treasury Management* at <http://www.lga.sa.gov.au/goto/fsp>

## Attachment 2: Suggested Model Procedures Format and Content

Since procedures are primarily internal operational documents – effectively forming a staff manual – a more flexible approach can be taken to formatting though consistency in presentation will help clarity and ease of use. Procedures should be as detailed as necessary to clearly set out responsibilities and processes required of staff.

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**PROCEDURES TITLE:**            *[Insert Procedure Name]*

Policy To Which Procedure Relates (if applicable):            *[Insert Policy Name]*

Approved by:                            *[Date]*

Review Date:                            *[Date of next review]*

Document Owner;                      *[Position responsible for maintenance of the procedure]*

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### CONTENT

#### 1 INTRODUCTION

*[Outline scope of procedure and legislative and corporate requirements]*

#### 2 POLICY CONTEXT

*[Include relevant Council policy reference or administrative policy statement if no Council policy is required.]*

#### 3. PROCEDURES

*[Outline procedures/guidelines for effective implementation of policy.]*

#### 4 REVIEW

*[Set out procedures/timelines for review.]*

### Attachment 3: Financial Policy Framework Checklist

Each of the following issues should be addressed by an explicitly adopted Council policy statement, even if separately referenced as part of the Council's Strategic Management Plans or Annual Business Plan.

<b>Required by the <i>Local Government Act 1999</i></b>	<b>Council Policy Document Adopted</b>
<b>Council as a purchaser – Section 49 (1) (a) to (c)</b>	
<b>Council as a seller – Section 49 (1) (d)</b>	
<b>Prudential management – Section 48 (aa1)(d)</b>	
<b>Internal Controls – Section 125</b>	
<b>Required by the Act but not directly related to financial management</b>	
<b>Public consultation Policy – Section 50</b>	
<b>Review of decisions – Section 270</b>	
<b>Training and development for elected Members – Section 80A</b>	
<b>Order-making policy – Section 259</b>	
<b>Not required by the Act, but recommended for financial management</b>	
<b>Service Levels and Resource Allocation</b>	
<b>Rating</b>	
<b>Funding (Revenue and Financing)</b>	
<b>Treasury Management</b>	
<b>Accounting</b>	
<b>Delegations</b>	
<b>Whistleblower Protection</b>	
<b>Reimbursement of Council Members' expenses</b>	
<b>Purchasing</b>	
<b>Asset accounting</b>	
<b>Depreciation</b>	

**Financial Procedures Checklist**

Supporting these Council policy statements, fully detailed procedures documents should be prepared, usually authorised by the CEO, to provide clear guidance to staff regarding processes and responsibilities. The following checklist of topics should be covered.

<b>Required by the <i>Local Government Act 1999</i></b>	<b>Procedures documented and authorised</b>
<ul style="list-style-type: none"> <li>• Prudential management procedures for the assessment of projects. See section 48 (aa1)</li> </ul>	
<ul style="list-style-type: none"> <li>• Purchasing, contracting and tendering procedures. See section 49 (a1)</li> </ul>	
<ul style="list-style-type: none"> <li>• Internal financial control procedures. See section 125</li> </ul>	
<ul style="list-style-type: none"> <li>• Compliance and standards procedures. See section 132A</li> </ul>	
<ul style="list-style-type: none"> <li>• Review of council decisions. See section 270</li> </ul>	
<b>Not required by the Act, but recommended</b>	
<ul style="list-style-type: none"> <li>• External Audit</li> </ul>	
<ul style="list-style-type: none"> <li>• Internal Audit</li> </ul>	
<ul style="list-style-type: none"> <li>• Fraud Prevention</li> </ul>	
<ul style="list-style-type: none"> <li>• Accounting</li> </ul>	
<ul style="list-style-type: none"> <li>• Financial Authorisations</li> </ul>	
<ul style="list-style-type: none"> <li>• Payroll</li> </ul>	
<ul style="list-style-type: none"> <li>• Goods and Services Tax</li> </ul>	
<ul style="list-style-type: none"> <li>• Fringe Benefits Tax</li> </ul>	
<ul style="list-style-type: none"> <li>• Bank Accounts and Banking Services</li> </ul>	
<ul style="list-style-type: none"> <li>• System Backup</li> </ul>	
<ul style="list-style-type: none"> <li>• Computer System Security</li> </ul>	
<ul style="list-style-type: none"> <li>• Receipt of Revenue</li> </ul>	
<ul style="list-style-type: none"> <li>• Debt Collection</li> </ul>	

• Bad Debts/Write Offs	
• Administration of Rate Payments	
• Administration of Rate Rebates and Concessions	
• Sale of Land Due to Non Payment of Rates	
• Tender Processes	
• Quotations	
• Delegated Authority for Purchasing	
• Petty Cash	
• Use of Credit Cards	
• Borrowings	
• Investment	