



Financial Sustainability Program

Information Paper 23

Financial Governance

February 2009



Introduction

Financial governance refers to the processes an organisation follows to manage its financial affairs for decision-making (including reviewing performance) and fulfilling its accountability to others.

The 2005 Financial Sustainability Inquiry identified that many Councils faced major financial sustainability challenges unless they took a range of initiatives to improve their financial position and performance¹. Most of the Inquiry's many recommendations that were aimed at Councils had, at their core, a need to improve financial governance.

Since the release of the Inquiry's report all Councils have undertaken steps to enhance their financial sustainability, both with initiatives of their own and through participation in various training programs and use of support materials prepared by the Local Government Association (LGA). However, it is critical that Councils ensure these strategies and initiatives are embedded in their financial governance processes.

This paper describes thirteen characteristics of best practice financial governance in Local Government. Councils should review their current practices relative to the recommendations suggested in this paper and in the light of their own circumstances. Where a Council rates highly against these characteristics it can be confident that it is operating from a strong financial governance platform.

Other information papers have been, or will soon be, prepared on the following topics:

- Financial Sustainability
- An Overview of Audit Mechanisms
- Audit Committees
- Scope of External Audit - Audit Specification
- Efficiency and Economy Audits
- Infrastructure and Asset Management (Policy and Planning)
- Service Delivery Framework including the Role of Shared Services
- Long-term Financial Plans
- Local Government Financial Indicators
- Debt Management
- Governance in Local Government
- Targets for Local Government Financial Indicators
- Model Framework for Council Annual Business Plans
- Model Work Program for Council Audit Committees
- Treasury Management
- Long-term Financial Plan - A Model Format for Financial Information
- Depreciation and Related Issues
- Financial Policies
- Audit Committee Reporting
- *Funding Policies and Strategies (currently being prepared)*
- *Internal Controls (currently being prepared)*
- *A New Approach to State-Local Resourcing (currently being prepared)*

A number of manuals, guidelines, templates, technical definitions, codes, standards and similar documents supporting this series of information papers are also being prepared by the LGA to provide practical assistance to Councils.

¹ See LGA Financial Sustainability Information Paper 1: '*Financial Sustainability*' for an overview of financial sustainability issues.

For an update on which information papers have now been completed or information about other documents and activities, including briefing and training sessions, please visit our website at: www.lga.sa.gov.au/goto/fsp.

What is financial governance?

Financial governance describes the way a Council manages its financial affairs in pursuing its strategic and corporate objectives and ensuring appropriate high levels of accountability. It comprises the policies and practices by which a Council meets its responsibility to the community to achieve long-term financial sustainability.

It is critical that financial governance policies and practices are efficient, effective and transparent. Good financial governance enhances public confidence in Local Government and helps to ensure that a Council is in a position to make decisions that are properly responsive to the interests of its community.

Legislative framework for financial governance

The Local Government Act, 1999 and the Local Government (Financial Management) Regulations 1999 impose a range of requirements on Councils intended to support good financial governance.

The legislation points to two distinct roles for Council Members:

1. represent and advocate for individuals and groups within their community;
2. as member of a governing body (with law making and taxing powers) serving to protect the organisation's long-term sustainability so that it can best serve the whole community and future generations.

The principal Local Government Act provisions and regulations relating to Council Members' financial governance responsibilities are set out in Attachment 1. To meet their responsibilities, all Council Members should participate in the deliberations (consideration, discussion, debate and decision making) relevant to financial governance.

Most of the legislative provisions are not specifically highlighted and discussed in this paper. Instead this paper's focus is on characteristics of 'best practice' financial governance in a South Australian Local Government context. Some recommended practices described below are in addition to legislative obligations. Comments that 'Councils should...' etc are not intended to mean that the action is a legislative requirement unless this is specifically stated.

Thirteen characteristics of best practice financial governance for Local Government:

This information paper identifies thirteen characteristics of best practice financial governance and encourages Councils to adopt financial governance processes that will ensure that they rate highly against these characteristics. The characteristics are described below under four theme areas.

Theme: Supporting sound financial decision making;

1. Ongoing education and training such that all Council Members understand and fulfil their financial governance responsibilities

Financial understanding and decision-making should not rest with one or two Council Members who have a background in financial matters. It is essential that all South Australian Council Members and key staff embrace their financial management responsibilities and understand the importance and means of achieving financial sustainability.

All Council Members should be able to identify and comprehend the key messages contained in financial statements and Council meeting agenda financial reports, and feel confident in contributing to financial decision-making. They need for example:

- to understand if their Council has an operating deficit, its relative magnitude, the ways it can be progressively eliminated and the likely implications if it isn't;
- to be able to assess whether the financial strategy and service level settings reflected in their long-term financial plan are sustainable;
- to know if their Council's level of debt is appropriate;
- to be able to evaluate the affordability and long-term impact of committing to major new capital projects/services.

All Councils should ensure that training programs for both Council Members² and senior staff are regularly reviewed and address financial management training needs as appropriate.

The LGA has produced a wide-range of material, some of which is referenced in this paper, to assist Councils to improve their financial governance and sustainability. This material is available from the LGA website at www.lga.sa.gov.au/goto/fsp. The LGA also regularly runs a variety of relevant training courses or can arrange tailored courses for specific needs.

2. Council's accounting policies and practices support decision making and assessment of performance

Councils need accurate costing information upon which to base:

- pricing and taxing decisions (both for aggregate revenue raising requirements and for equitably basing service charges such as for Community Wastewater Management Systems and Waste Collection Services);
- decisions about affordability of proposals for adding to stocks of assets and services;
- reviews of performance and means of service provision.

Accounting policies and practices should not only meet legislative obligations (including compliance with relevant Australian Accounting Standards³) but should go further where considered beneficial. For example, on average, depreciation represents about 23% of Councils' operating expenses. While Accounting Standards require assets to be regularly revalued⁴ auditors usually interpret this to mean at least every 3 to 5 years. Councils may find it beneficial to revalue major classes of assets more frequently, including possibly annually adjusting by an appropriate indexation factor to ensure recorded depreciation expenses remain up to date.

For further information in regard to depreciation issues see LGA Financial Sustainability Information Paper 17: *'Depreciation and Related Issues'*.

3. Budget and financial information presented for Council deliberation is at a strategic level, succinct and easy to follow.

Financial information is often, unfortunately, presented in a format that is neither enticing nor easy to interpret by people who are not financial experts. This occurs in all sectors/industries not just in Local Government. Too often there is a lot of detail that appears overwhelming to the reader and makes it hard to identify and focus on issues of key relevance to the governing body.

² Section 80A of the Local Government Act, 1999 requires all Councils to have a training and development policy for Council Members that aims to assist members in the performance of their functions and duties.

³ see Local Government (Financial Management) Regulation 8

⁴ see paragraph 31 of Australian Accounting Standard AASB 116

It is critical that financial information is pitched and presented in a form that supports decision-making and accountability. Is the Council on track to achieve its budgeted performance (service delivery) targets within the overall financial constraints it has set itself? If not, why and what needs to be done to correct the situation?

Internal financial reporting used to manage the Council's finances should be based on accrual rather than cash accounting. Accrual accounting gives more complete information. In respect of Council budgets and reviews thereof, the Local Government Regulations require the use of accrual accounting. Cash accounting can lead decision-makers to conclude that they can afford more than is the reality, by ignoring non-cash costs such as depreciation (arising from the using-up of assets).

Councils are no longer required to prepare a 'Rates Determination Statement' – it is a poor basis for determining annual rating and service levels and its use is strongly discouraged. A much better option is to set annual budgets based on the achievement of targets for key financial indicators not only for the budget year but also with regard to the impact of budget proposals on the achievement of future years' targets as set out in Councils' Long-term Financial Plans.

4. The annual budget is based on a sound Long-term Financial Plan

The Local Government Act requires that all Councils have Long-term Financial Plans (LTFPs) from November 2008⁵.

The financial starting point for the preparation of a Council's annual business plan⁶ and forthcoming budget should be the content of the corresponding year (typically year 2) of a Council's LTFP, updated of course to take account of any relevant factors. In deliberations associated with development of the forthcoming budget the Council should be clear in its understanding regarding any differences in its proposed content compared with the content of its approved LTFP.

Preparation of a LTFP requires a Council to have identified future organisational and community needs and preferences and to consider forecast demographic and other likely operating environment changes and their implications.

The development of a LTFP enables a Council to model various options and scenarios and determine affordable and appropriate service levels e.g. the impact on the achievement of responsible targets for financial indicators from alternative rating strategies or from adding to Council services.

A Council's LTFP should:

- be based on the objectives, strategies and actions documented in its strategic management plan;
- explicitly state its assumptions, revenue raising proposals and any significant changes in planned service levels;
- accommodate the financial resource requirements of its infrastructure and asset management plan;
- explicitly disclose projections for financial indicators against targets it has set.

⁵ see Local Government Act, 1999 Section 122 (1a) and LGA Financial Sustainability Information Paper 8: 'Long-Term Financial Plans'

⁶ see LGA Financial Sustainability Information Paper 13: 'Model Framework for Council Annual Business Plans'

Theme: Ensuring affordable services to the community;

5. *The range and level of services provided is based on affordability and community needs and preferences and appropriate Local Government roles*

A Council's range and level of service provision should be driven by the outcomes of the periodic review of its strategic management plan (including associated community consultation). Communities need to be made aware of the revenue raising implications of additional services and raising standards for existing services.

Before making any commitment to increase services, including through acquisition of major new assets, Councils should assess whether it is appropriate for Local Government to fund the activity under consideration. They should be especially wary of undertaking or contributing to roles more appropriately the responsibility of other spheres of government.

Demographic and preference changes may mean that services that were once popular now have less demand and new needs have arisen. When introducing new services (or services in different locations) Councils also need to consider whether existing services in some locations can be reduced. This could include identification of opportunities to dispose of under-utilised assets. Any decision to undertake major discretionary one-off projects or ongoing initiatives should be supported by a thorough benefit/cost analysis and an understanding of additional revenue raising requirements to ensure the Council's financial targets are not adversely affected.

6. *Considerable effort is made to help the community understand Council's financial circumstances and performance*

All spheres of government have more demands and expectations placed on them than they are able to responsibly fund. If taxpayers believe that a government has plenty of money why wouldn't they want more?

Councils need to simply and clearly communicate their financial capacities and constraints and the costs of existing responsibilities and services, along with initiatives under consideration. They need to explain the consequences of trying to provide service levels beyond what is affordable on an ongoing basis. Where a Council does this well it is far more likely that its community will accept the need for restraint in service expectations and/or increases in revenue. Most people want to receive value for money from their Local Government but would not want their Council to provide more services than is affordable and as a result incur financial problems that will have negative consequences for their community in future. Section 123 of the Local Government Act, 1999 requires that a Council consult with its community on its annual business plan which will include a summary of the Council's long-term objectives, an outline of its proposed activities to achieve those objectives, its financial requirements for the year and its rates structure and impacts on the community.

Councils should publish and promote their actual performance against their financial and service standard targets through a variety of communication mediums as a demonstration of their commitment to transparency and accountability. This information needs to be easily understandable and should explain steps being taken where reported performance is below target. A Council needs to be accountable to its community not only for its expenditure on delivery of services, but more importantly for the quality and efficiency of services it delivers and the outcomes it achieves.

7. The Infrastructure and Asset Management Plan (I&) is based on affordable service levels and maintenance programs that minimise whole-of-life asset costs

Councils' activities are extremely asset-intensive relative to their income levels (and far more so than other spheres of government). Council Members in their 'governing body' role are effectively custodians of these assets on behalf of the community (both current and future generations).

It is important that Council members have an understanding of:

- the aggregate value of assets they are effectively responsible for managing;
- the proportions of each type of asset in their Council's asset portfolio.

How well a Council manages its asset portfolio (achieving the right level and standard of assets relative to community need and capacity to pay, and ensuring that maintenance and rehabilitation/replacement is carried out when appropriate to minimise whole-of-life costs) will have paramount impact on its financial performance.

As Local Government responsibilities and services have grown over time, most Councils have under-funded asset maintenance. Under-funding asset maintenance is false economy. Assets will deteriorate prematurely and service capabilities designed into assets (at a cost) will not be realised.

Sound asset management can save a Council considerable funds over time. All Councils must have an I& in place from November 2008⁷.

It is critical that an I& allows for timely and cost-effective asset maintenance programs and replacement of asset components. If expenditure needs to be reduced or deferred this should normally be achieved by deferring acquisition of new or upgraded assets rather than deferring maintenance. If having done this, funding is still insufficient, it may be cost effective to raise additional borrowings rather than defer essential maintenance/replacement (e.g. road reseal programs should be carried out whenever technically optimal to do so in order to prevent premature failure of pavements).

Preparation of an I& and inputting its financial resource requirements into the LTFP enables Councils to ascertain funding (revenue raising) and financing (cash flow generation including from borrowings) necessary to carry out timely cost-effective maintenance/replacement regimes and determine the affordability of any proposals to acquire additional assets or upgrade existing stocks (e.g. convert an unsealed road into a sealed road).

Theme: Guiding funding and financing:

8. The rating strategy is equitable and generates sufficient revenue to meet financial sustainability needs

For most Councils rates (including general and service rates and fixed and service charges) represent the overwhelmingly largest source of their operating revenue (average of 77% across all Councils in 2006-07). Councils have considerable flexibility as to both the quantum of rate revenue they raise and the basis on which it is raised.

No-one likes paying more in government taxes and charges than they have to. Councils must balance their obligations and preferred service levels with the community's capacity and willingness to pay when determining how much rate revenue to raise. They also need to determine how to best achieve their revenue target and whether some classes of ratepayers

⁷ see Local Government Act, 1999 Section 122 (1a) and LGA Financial Sustainability Information Paper 6: 'Infrastructure and Asset Management'

should pay proportionately more or less than others relative to the value of their property (e.g. by applying differential rates).

The Australian Bureau of Statistics publishes information on the average annual income levels for individuals by Council area and for South Australia collectively. Councils should also bear in mind rates paid by ratepayers generally, and residential ratepayers specifically (and possibly other classes of ratepayers too), in other Local Government areas. The SA Local Government Grants Commission provides to each Council, annual database reports showing comparative rating information across all Councils.

Councils are understandably sometimes reluctant to increase rates because of the likely impact on specific sections of the community. However, the flexibility of Local Government rating powers usually means it is possible for a Council that wished to generate more overall revenue, to structure its rating system to ensure an equitable impact while reasonably protecting particular classes (e.g. persons with low capacity to pay) from an unfair burden.

In summary Councils need to use their revenue raising powers responsibly. This means:

- raising sufficient revenue to ensure financial sustainability;
- keeping Council's rating system under review to ensure it has appropriate regard for:
 - changes in capacity to pay within sections of the community;
 - the extent of opportunity for access to, use of and benefit from Council services when structuring and setting taxing and charging regimes.

Further information regarding rating is available in LGA Financial Sustainability Information Paper 20: *'Funding Policies and Strategies'* and the Council Rates page on the LGA's web site available via the following link: [Local Government Association of South Australia - Council Rates - LGA](#).

9. Debt is used responsibly and treasury management activities are undertaken in accord with a policy that minimises net interest costs relative to acceptable risk

Many South Australian Councils have traditionally been averse to debt. Greater use of debt can actually improve financial performance (e.g. by using borrowings where it is not practical to finance in other ways, to rehabilitate assets and extend their lives, thereby reducing maintenance costs if such work is necessary in the short-term).

Where a Council achieves an operating breakeven result on average over time it will generate approximately sufficient funds to renew/replace assets when required. It will not however generate sufficient funds to also finance upgrades or additions to its stock of assets. It could accommodate this to some extent by generating operating surpluses but over reliance on this strategy will give rise to intergenerational inequity issues. In order to avoid this, borrowings will usually sooner or later be needed (but not necessarily at the time the outlay arises) to finance outlays that increase the quality and quantity of assets held.

Councils should not be concerned at having a large amount of debt providing their long-term financial plan and financial strategies are soundly based.

Irrespective of their actual level of debt, many Councils have potential to generate savings over the medium term and reduce their interest rate risk exposure by changing the timing and the nature of their borrowings.

In most instances there is no need or point in a Council borrowing money to meet cash outflows if at the same time it has funds invested which can be liquidated. Similarly, borrowings should not be raised for a fixed long term period if a Council expects to have surplus funds to invest (even for just a short period) in future. Having a significant proportion of borrowings at variable interest rates (rather than all at fixed rates of interest) will help minimise

long-term interest costs in a risk averse manner and such borrowings can be repaid when surplus cash is available.

Further information regarding recommended treasury management strategies is provided in LGA Financial Sustainability Information Paper 15: *'Treasury Management'*.

Good financial governance necessitates the adoption of a formal treasury management policy. Such a policy should have regard to the content of Information Paper 15 and other relevant factors. Councils should regularly report on actual performance relative to the policy's targets and requirements.

Theme: Facilitating performance monitoring and review:

10. Financial performance is managed using suitable financial indicators and targets

Financial indicators can provide a sound, easily understood and transparent measure of financial performance if the range of indicators used is relevant and kept to the minimum necessary for the organisation's circumstances, and if appropriate targets are also set for these indicators.

LGA Financial Sustainability Information Paper 9: *'Local Government Financial Indicators'* describes the 7 financial indicators that have been endorsed for general applicability by the South Australian Local Government sector. Councils are now required to disclose their projected performance relative to 3 of these indicators (operating surplus ratio, net financial liabilities ratio and asset sustainability ratio) in their budgets⁸ and long-term financial plans⁹ and actual performance against all 7 indicators in their annual financial statements¹⁰.

No individual, organisation or government can continue to carry on its business and financial affairs indefinitely with a large annual operating deficit. In a Local Government context the most likely consequence of sustaining ongoing deficits will be that a Council finds it difficult to generate the funds necessary to renew and replace assets as and when required to maintain existing service standards without subsequent excessively large increases in rate revenue.

Significant ongoing operating deficits are inequitable (effectively the current generation of ratepayers is paying considerably less than the cost of services it enjoys) and this must have an adverse consequence for those who follow. The longer a Council delays addressing an operating deficit the more significant the impact, both in terms of lower service levels and higher overall costs (as it is likely to increasingly struggle to cost effectively maintain and renew its assets as required). Of course, unless there are good reasons for doing so, ongoing excessive operating surpluses also are inequitable (because the current generation of ratepayers is paying considerably more than the cost of services it enjoys).

Councils should set short, medium and long-term financial targets for each year of their long-term plan. More information to help Councils determine targets for the 7 financial indicators relevant to their own circumstances is contained in LGA Financial Sustainability Information Paper 12: *'Targets for Local Government Financial Indicators'*.

11. The efficiency and effectiveness of means of service delivery is regularly reviewed

Councils are required to use their resources efficiently¹¹. They should consider the relative merits of options such as using their own employees, contracting out and resource sharing

⁸ see Local Government (Financial Management) Regulation 5B.

⁹ see Local Government (Financial Management) Regulation 5

¹⁰ see Local Government (Financial Management) Regulations 8 and 10

¹¹ see Local Government Act, 1999 Section 8(h)

where relevant and choose the means that is most appropriate for their circumstances¹². Councils can initiate formal efficiency and economy audits¹³ for this purpose but a better approach is to have a systemic program where key services are reviewed on a cyclic basis through internal audit or other ongoing arrangements.

12. There is a process in place that helps ensure compliance with financial related legislative obligations

The Local Government Act and the supporting Local Government (Financial Management) Regulations impose a wide range of obligations on Councils in connection with rating, budget setting and management, internal control, record keeping and financial reporting. A Council needs to be confident that it is fulfilling these requirements. Its external auditor may test compliance with some of these requirements in connection with the annual external audit but generally speaking, the audit brief is unlikely to be sufficiently comprehensive to cover all aspects.

Councils should, through their own resources or with the assistance of independent experts, periodically satisfy themselves that they are complying with all of their financial related legislative obligations. Such activities could be managed as part of an internal audit program or by independent review or as a specific project of an appropriate staff member. Non-compliance with these obligations may have an adverse effect on community confidence in the Council's administration of public monies.

13. Council's audit committee's activities and work program supports and promotes effective financial governance by the Council

All Councils are now required to have an Audit Committee. The Audit Committee's roles include:

- proposing and contributing relevant information to a review of a Council's strategic management or annual business plans;
- reviewing the adequacy of the Council's accounting, internal control, reporting and other financial management systems and practices on a regular basis¹⁴.

A Council's Audit Committee's work program should be structured to ensure it includes actions that enable it to review the appropriateness and effectiveness of the Council's financial governance systems and practices and suggest improvements where it considers warranted.

Further information regarding Audit Committee work programs is documented in LGA Financial Sustainability Information Paper 14: *'Model Work Program for Council Audit Committees'* and its reporting to Council in LGA Financial Sustainability Information Paper 19: *'Audit Committee Reporting'*.

What are the issues for Councils?

Good financial governance is essential in order for Councils to well serve their communities. The better a Council's standards of financial governance the more likely it is that:

- it efficiently and effectively provides an appropriate range and level of services to residents and ratepayers;
- it fairly generates appropriate levels of revenue from different classes of ratepayers and users of services both currently and over longer periods; and

¹² see LGA Financial Sustainability Information Paper 7: *'Service Delivery Framework Including the role of Shared Services'*

¹³ see Local Government Act, 1999 Section 130A and also LGA Financial Sustainability information Paper 5: *'Efficiency and Economy Audits'*

¹⁴ see Local Government Act, 1999 Section 126

- financial related risks from undertaking its responsibilities and activities will be effectively managed.

In order to carry out their financial governance responsibilities Council Members as a governing body must:

- establish sound financial policies and targets;
- keep expenditure and efficiency and effectiveness of service delivery under review;
- monitor on-going financial results;
- ensure ongoing financial sustainability;
- ensure proper management of assets and resources.

Councils should rate their operations against each of the characteristics described in this information paper to monitor the strength of their financial governance processes.

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Attachment 1: Local Government Act Provisions and Regulations Relating to Financial Governance

Local Government Act 1999

Section 8—Objectives of a council

A council must, in the performance of its roles and functions—

- (a) provide open, responsive and accountable government;
- (b) be responsive to the needs, interests and aspirations of individuals and groups within its community;
- (c) participate with other councils, and with State and national governments, in setting public policy and achieving regional, State and national objectives;
- (d) give due weight, in all its plans, policies and activities, to regional, State and national objectives and strategies concerning the economic, social, physical and environmental development and management of the community;
- (e) seek to co-ordinate with State and national government in the planning and delivery of services in which those governments have an interest;
- (f) seek to facilitate sustainable development and the protection of the environment and to ensure a proper balance within its community between economic, social, environmental and cultural considerations;
- (g) manage its operations and affairs in a manner that emphasises the importance of service to the community;
- (h) seek to ensure that council resources are used fairly, effectively and efficiently;
- (i) seek to provide services, facilities and programs that are adequate and appropriate and seek to ensure equitable access to its services, facilities and programs.

Section 59—Roles of members of councils

(1) The role of a member of a council is—

- (a) as a member of the governing body of the council—
 - (i) to participate in the deliberations and civic activities of the council;
 - (ii) to keep the council's objectives and policies under review to ensure that they are appropriate and effective;
 - (iii) to keep the council's resource allocation, expenditure and activities, and the efficiency and effectiveness of its service delivery, under review;
- (b) as a person elected to the council—to represent the interests of residents and ratepayers, to provide community leadership and guidance, and to facilitate communication between the community and the council.

- (2) A member of a council may, with the principal member's authorisation, act in place of, or represent, the principal member.
- (3) A member of a council has no direct authority over an employee of the council with respect to the way in which the employee performs his or her duties.

Section 80A—Training and development

- (1) A council must prepare and adopt a training and development policy for its members.
- (2) The policy must be aimed at assisting members in the performance and discharge of their functions and duties.
- (3) A council may from time to time alter its policy, or substitute a new policy.
- (4) A person is entitled to inspect (without charge) a policy under this section at the principal office of the council during ordinary office hours.
- (5) A person is entitled, on payment of a fee fixed by the council, to a copy of a policy under this section.

Section 122—Strategic management plans

- (1) A council must develop and adopt plans (which may take various forms) for the management of its area, to be called collectively the **strategic management plans**, which—
 - (a) identify the council's objectives for the area over a period of at least 4 years (the **relevant period**), and provide a clear indication of—
 - (i) the extent to which the council has participated with other councils, and with State and national governments, in setting public policy objectives, and the extent to which the council's objectives are related to regional, State and national objectives; and
 - (ii) the extent to which the council has given consideration to regional, State and national objectives and strategies which are relevant to the economic, social, physical and environmental development and management of its area; and
 - (iii) the extent to which the council intends to co-ordinate with State and national governments in the planning and delivery of services in which there is a common interest; and
 - (ab) provide assessments that relate to the following matters (with particular reference to the relevant period):
 - (i) the sustainability of the council's financial performance and position; and
 - (ii) the extent or levels of services that will be required to be provided by the council to achieve its objectives; and
 - (iii) the extent to which any infrastructure will need to be maintained, replaced or developed by the council; and

- (iv) anticipated changes in its area with respect to—
 - (A) real property development; and
 - (B) demographic characteristics of its community to the extent that is reasonable taking into account the availability of appropriate and accurate data; and
 - (v) the council's proposals with respect to debt levels; and
 - (vi) any anticipated or predicted changes in any factors that make a significant contribution to the costs of the council's activities or operations; and
 - (b) identify the principal activities that the council intends to undertake to achieve its objectives; and
 - (d) state the measures (financial and non-financial) that are to be used to monitor and assess the performance of the council against its objectives over the relevant period; and
 - (e) identify the means by which its activities are to be carried out and its objectives achieved; and
 - (g) address issues associated with arranging its affairs so as to separate its regulatory activities from its other activities, so far as this is reasonable to do so; and
 - (h) make provision for the regular review of the charters, activities and plans of any subsidiary of the council.
- (1a) A council must, in conjunction with the plans required under subsection (1), develop and adopt—
- (a) a long-term financial plan for a period of at least 10 years; and
 - (b) an infrastructure and asset management plan, relating to the management and development of infrastructure and major assets by the council for a period of at least 10 years, (and these plans will also be taken to form part of the council's strategic management plans).
- (2) Strategic management plans—
- (a) should (as far as practicable) be consistent with the Planning Strategy and the Development Plan or Plans for the council's area, and with other relevant statutory policies and plans; and
 - (b) must comply with any requirement prescribed by the regulations.
- (3) In addition to the requirements of subsection (2), a council must, in formulating its strategic management plans, have regard to—
- (a) the council's roles and responsibilities under this or any other Act; and
 - (b) the council's objectives for its area.
- (4) A council may review its strategic management plans under this section at any time but must—
- (a) undertake a review of—

- (i) its long-term financial plan; and
 - (ii) any other elements of its strategic management plans prescribed by the regulations for the purposes of this paragraph, as soon as practicable after adopting the council's annual business plan for a particular financial year; and
- (b) in any event, undertake a comprehensive review of its strategic management plans within 2 years after each general election of the council.
- (4a) A council must, for the purposes of a review under subsection (4), take into account—
- (a) in relation to a review under subsection (4)(a)(i)—a report from the chief executive officer on the sustainability of the council's long-term financial performance and position taking into account the provisions of the council's annual business plan and strategic management plans; and
 - (b) insofar as may be relevant—any other material prescribed by the regulations.
- (5) A council may amend its strategic management plans or adopt new plans.
- (6) A council must adopt a process or processes to ensure that members of the public are given a reasonable opportunity to be involved in the development and review of its strategic management plans.
- (7) A council must ensure that copies of its strategic management plans under this section are available for inspection (without charge) and purchase (on payment of a fee fixed by the council) by the public at the principal office of the council.
- (8) A council must, for the purposes of this section, specifically declare which plans will constitute the strategic management plans of the council.

Section 123—Annual business plans and budgets

- (1) A council must have, for each financial year—
- (a) an annual business plan; and
 - (b) a budget.
- (2) Each annual business plan of a council must—
- (a) include a summary of the council's long-term objectives (as set out in its strategic management plans); and
 - (b) include an outline of—
 - (i) the council's objectives for the financial year; and
 - (ii) the activities that the council intends to undertake to achieve those objectives; and
 - (iii) the measures (financial and non-financial) that the council intends to use to assess the performance of the council against its objectives over the financial year; and

- (c) assess the financial requirements of the council for the financial year and, taking those requirements into account, set out a summary of its proposed operating expenditure, capital expenditure and sources of revenue; and
 - (d) set out the rates structure and policies for the financial year; and
 - (e) assess the impact of the rates structure and policies on the community based on modelling that has been undertaken or obtained by the council; and
 - (f) take into account the council's long-term financial plan and relevant issues relating to the management and development of infrastructure and major assets by the council; and
 - (g) address or include any other matter prescribed by the regulations.
- (3) Before a council adopts an annual business plan, the council must—
- (a) prepare a draft annual business plan; and
 - (b) follow the relevant steps set out in its public consultation policy, taking into account the requirements of subsection (4).
- (4) For the purposes of subsection (3)(b), a public consultation policy must at least provide for the following:
- (a) the publication in a newspaper circulating within the area of the council of a notice informing the public of the preparation of the draft annual business plan and inviting interested persons—
 - (i) to attend—
 - (A) a public meeting in relation to the matter to be held on a date (which must be at least 21 days after the publication of the notice) stated in the notice; or
 - (B) a meeting of the council to be held on a date stated in the notice at which members of the public may ask questions, and make submissions, in relation to the matter for a period of at least 1 hour, (on the basis that the council determines which kind of meeting is to be held under this subparagraph); or
 - (ii) to make written submissions in relation to the matter within a period (which must be at least 21 days) stated in the notice; and
 - (b) the council to make arrangements for a meeting contemplated by paragraph (a)(i) and the consideration by the council of any submissions made at that meeting or in response to the invitation under paragraph (a)(ii).
- (5) The council must ensure that copies of the draft annual business plan are available at the meeting under subsection (4)(a)(i), and for inspection (without charge) and purchase (on payment of a fee fixed by the council) at the principal office of the council at least 7 days before the date of that meeting.
- (6) A council may then, after considering—

- (a) any submission made to the council during the public consultation period; and
 - (b) any new or revised information in the possession of the council that is relevant to the material contained in the draft annual business plan; and
 - (c) such other materials or information as the council thinks fit, adopt its annual business plan (with or without amendment).
- (7) Each budget of a council must—
- (a) be considered in conjunction with the council's annual business plan (and must be consistent with that plan, as adopted); and
 - (b) be adopted by the council after the council has adopted its annual business plan.
- (8) An annual business plan and a budget must be adopted by a council after 31 May for the ensuing financial year and, except in a case involving extraordinary administrative difficulty, before 31 August for the financial year.
- (9) A council must, after adopting an annual business plan and a budget—
- (a) ensure—
 - (i) that a summary of the annual business plan is prepared so as to assist in promoting public awareness of the nature of its services and its rating and financial management policies, taking into account its objectives and activities for the ensuing financial year; and
 - (ii) that a copy of the summary of the annual business plan accompanies the first rates notice sent to ratepayers after the declaration of its rates for the financial year; and
 - (b) ensure—
 - (i) that copies of the annual business plan and the budget (as adopted) are available for inspection (without charge) or purchase (on payment of a fee fixed by the council); and
 - (ii) that copies of the summary of the annual business plan are available for inspection and to take (without charge),
at the principal office of the council.
- (10) The regulations may prescribe requirements with respect to the preparation, form and contents of—
- (a) an annual business plan (including a draft for the purposes of public consultation), and the summary required under subsection (9); and
 - (b) a budget.
- (11) However, in any event, the summary of the annual business plan must include an assessment of the extent to which the council's objectives for the previous financial year have been attained (taking into account the provisions of the annual business plan for that financial year).

- (12) Subject to complying with a preceding subsection, any relevant document under this section will be in a form determined by the council.
- (13) A council must, as required by the regulations, and may at any time, reconsider its annual business plan or its budget during the course of a financial year and, if necessary or appropriate, make any revisions.
- (14) A rate cannot be challenged on a ground based on non-compliance with this section, or on a ground based on the contents of a document prepared or adopted by a council for the purposes of this section.

Section 125—Internal control policies

A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.

Section 126—Audit committee

- (1) A council must have an audit committee.
- (2) The membership of an audit committee—
 - (a) may include persons who are not members of the council; and
 - (b) may not include an employee of the council (although an employee may attend a meeting of the committee if appropriate); and
 - (c) may include, or be comprised of, members of an audit committee for another council; and
 - (d) must otherwise be determined in accordance with the requirements of the regulations.
- (4) The functions of an audit committee include—
 - (a) reviewing annual financial statements to ensure that they present fairly the state of affairs of the council; and
 - (ab) proposing, and providing information relevant to, a review of the council's strategic management plans or annual business plan; and
 - (ac) proposing, and reviewing, the exercise of powers under section 130A; and
 - (ad) if the council has exempted a subsidiary from the requirement to have an audit committee, the functions that would, apart from the exemption, have been performed by the subsidiary's audit committee; and
 - (b) liaising with the council's auditor; and
 - (c) reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.

Section 130A—Other investigations

- (1) A council may, as it thinks fit, request its auditor, or some other person determined by the council to be suitably qualified in the circumstances, to examine and report on any matter relating to financial management, or the efficiency and economy with which the council manages or uses its resources to achieve its objectives, that would not otherwise be addressed or included as part of an annual audit under Division 4 and that is considered by the council to be of such significance as to justify an examination under this section.
- (2) An examination and report under subsection (1) may be requested—
 - (a) if appropriate, on the basis that it will be conducted in conjunction with an annual audit; or
 - (b) on the basis that it will be conducted as a separate examination and report.
- (3) An examination under this section—
 - (a) is not to operate or apply so as to limit the role or functions of a council under this or any other Act, or the lawful role or functions of any member of a council; and
 - (b) is to be undertaken in such manner as the person conducting the examination thinks fit and without undue influence from a member of the council or the chief executive of the council.
- (4) The chief executive officer must, at the request of a person conducting an examination under subsection (1)—
 - (a) produce to the person for inspection any documents relevant to the examination;
 - (b) provide to the person explanations or information required by the person.Maximum penalty: \$10 000.
- (5) The report on an examination must be provided—
 - (a) to the principal member of the council (who must ensure that a copy is immediately provided to the chief executive officer, and that copies are provided to the other members of council for their consideration at the relevant meeting under subsection (6) or (7)); and
 - (b) to the council's audit committee.
- (6) Unless subsection (7) applies, the report must be placed on the agenda for consideration—
 - (a) unless paragraph (b) applies—at the next ordinary meeting of the council;
 - (b) if the agenda for the next ordinary meeting of the council has already been sent to members of the council at the time that the report is provided to the principal member of the council—at the ordinary meeting of the council next following the meeting for which the agenda has already been sent, subject to the qualification that this paragraph will not apply if the principal member of the council determines, after consultation with the chief executive officer, that the report should be considered at the next meeting of the council as a late item on the agenda.

- (7) The report may be the subject of a special meeting of the council called in accordance with the requirements of this Act (and held before the ordinary meeting of the council that would otherwise apply under subsection (6)).
- (8) The report on an examination must be kept confidential until it is received at the relevant meeting of the council held under subsection (6) or (7) or, if the council so resolves at that meeting, until a later date specified by the council (being not later than 60 days after the date of the meeting).

Local Government (Financial Management) Regulations 1999

Regulation 5—Long-term financial plans

Pursuant to section 122(2)(b) of the Act, a long-term financial plan must include—

- (a) an estimated income statement, balance sheet, statement of changes in equity and statement of cash flows with respect to the period of the long-term financial plan presented in a manner consistent with the Model Financial Statements;
- (b) a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*;
- (c) estimates with respect to an operating surplus ratio, an asset sustainability ratio and a net financial liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled *Financial Indicators*.

Regulation 5A—Annual business plans

Pursuant to section 123(2)(g) of the Act, an annual business plan (including a draft for the purposes of public consultation) must include information with respect to the following additional matters:

- (a) the reason why the council has adopted its valuation method for rating purposes;
- (b) if differential rates are used, the reasons and justifications for the differentiation, and the expected level of revenue to be raised by each differential rate;
- (c) if applicable, the use and level of a fixed charge component of a general rate;
- (d) the use and level of any separate rate, service rate or service charge, including the reasons for the rate or charge;
- (e) the council's policy on discretionary rebates and remissions, with particular reference to the rebates that will apply for more than one financial year and including information on how a rebate is designed to meet the purpose behind the rebate;
- (f) issues concerning equity within the community and the impact of rates across the area;

- (g) the application or operation of a minimum amount payable by way of rates (if applicable).

Regulation 5B—Budget

Pursuant to section 123(10)(b) of the Act, each budget of a council under the Act must—

- (a) include a budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows, presented in a manner consistent with the Model Financial Statements; and
- (b) state whether projected operating income is sufficient to meet projected operating expenses for the relevant financial year; and
- (c) 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*; and
- (d) include estimates with respect to the council's operating surplus ratio, asset sustainability ratio and net financial liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled *Financial Indicators*.

Regulation 7—Reconsideration of budgets

- (1) A council, council subsidiary or regional subsidiary must reconsider its budget at least three times, at intervals of not less than three months, between 30 September and 31 May (both dates inclusive) in the relevant financial year.
- (2) The first reconsideration of a budget under subregulation (1) in a particular financial year must include a review which takes account of the financial outcomes of the council, council subsidiary or regional subsidiary (as the case may be) for the previous financial year.
- (3) A reconsideration of a budget under this regulation must examine and, if necessary, revise, the relevant entity's budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows.

Regulation 8—Accounting standards

- (1) Unless otherwise specified by these regulations, a council, council subsidiary or regional subsidiary must ensure that all accounting records, accounts and financial statements are prepared and maintained in accordance with all relevant Australian Accounting Standards.
- (2) Unless otherwise required or permitted by another law, a council, council subsidiary or regional subsidiary must ensure that reporting on a function, activity, good or service of the council, council subsidiary or regional subsidiary contained in its financial statements, or in any other external financial report prepared by the council, council subsidiary or regional subsidiary, is made according to a full cost attribution basis.

- (3) For the purposes of subregulation (2), an external financial report is a report of a financial nature prepared for the information and use of a person or body external to the council, the council subsidiary and the council which established the subsidiary, or the regional subsidiary and any constituent council (as the case may be).

Regulation 10—Form of financial statements

The financial statements of a council, council subsidiary or regional subsidiary (other than notes and other explanatory documentation) must be in accordance with the requirements set out in the Model Financial Statements.