

Policy 6.06 Financial Management

Directorate	Business and Governance
Responsible Officer	Director Business and Governance

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Under Review

1.1 Introduction

1.1.1 Scope

This policy includes the financial management strategies and processes implemented by council to meet legislative and regulatory requirements and ensure responsible financial management with the goal of sustainability.

1.1.2 Purpose

Council's intent is to continue to operate in a financially sustainable manner. This means our organisation will financially support long-term service and infrastructure levels and standards without unplanned increases in rates or disruptive cuts to services.

This policy provides the strategic direction for decision-making. It guides the allocation, management and use of financial resources. It aims to ensure that Council remains financially stable while providing focus to financing key Council priorities through strong financial management.

The policy sets the parameters that achieves accepted financial outcomes, aiming to provide financial stability, affordability, delivery, and value for money, over the short, medium, and longer term.

1.2 Definitions

Word or Terminology	Description
Capital	Expenditure or income that relates to the creation, renewal, or upgrade of an asset.
Cash Flow from Operations	The amount of cash generated by Council each year from its operations less the operating payments made to suppliers and employees related to funding those operations.
Council Controlled Income	Income that Council has direct control over to influence namely rates and user charges.
Depreciation	The annual allocation of the capital cost of an asset over its useful life is included in the operating cost of the service that the asset is providing to reflect the use of an asset's service potential. <i>For example, the depreciation charge of a \$10 asset that lasts 10 years would be \$1 per year charged to the operating cost of the service that the asset is providing.</i>
Infrastructure	A collective term used to describe long-lived assets such as roads, footpaths, stormwater pipes and buildings that are utilised by Council to provide services.
Intergenerational Equity	The concept that those who are using the benefits of a service provided by Council should contribute proportionally to its cost. In terms of a service provided by a long lived asset such as a public pool, this means that present and future users of the service should pay for the service equally over the life of the asset.
Model Financial Statements	A format prescribed by the Minister responsible for Local Government in which Council must present its Annual Financial Statements, budgets and budget reviews including the use of three industry mandated indicators. The model

Word or Terminology	Description
	financial statements represent the minimum requirements for detail and disclosure.
Net Financial Liabilities	Council's total liabilities including reserves, less its financial assets (assets readily convertible to cash) such as cash at bank and receivables.
Net Interest Expense	Council's annual interest expense less annual interest revenue
Recurrent Operating Income	Income earned each year that funds the day-day recurrent operating services such as Rates, Statutory & User Charges, Grants and contributions
Recurrent Operating Services	A service that is provided by Council each year either by choice or by legislative requirement. For the delivery of day-to-day recurrent operating services, the benefit of the provision of the service is consumed at the point the service is delivered and this pattern is repeated each year.
Operating	Expenditure or income that relates to the day-to-day operations of a service.
Operating Projects	A one-off short-term operating project is a service or project that is to be delivered over 1 or 2 years.. For the delivery of one-off or short-term operating projects (services), the benefit of the provision of the service is still consumed at the point the service is delivered and this pattern is repeated each year for the duration of the project.
Principles of sound financial management <i>Local Government Act (1993) Section 8B</i>	<ol style="list-style-type: none"> a) Council spending should be responsible and sustainable, aligning general revenue and expenses. b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community. c) Councils should have effective financial and asset management, including sound policies and processes for the following: <ol style="list-style-type: none"> i. performance management and reporting ii. asset maintenance and enhancement iii. funding decisions iv. risk management practices. d) Councils should have regard to achieving intergenerational equity, including ensuring the following: <ol style="list-style-type: none"> i. policy decisions are made after considering their financial effects on future generations, ii. the current generation funds the cost of its services.

1.3 Legislation

- *Local Government Act 1993*
- *Local Government (General) Regulation 2021*
- *Local Government Code of Accounting Practice*
- *International Financial Reporting Standards.*

1.4 Implementation

1.4.1 Policy Statement

Sound financial management is the efficient and effective management of financial resources in such a manner as to accomplish the objectives of the organisation.

Bega Valley Shire Council will ensure sound financial management of its operations and community assets through a range of actions including but not limited to:

1.4.2 Financial Principals

Financial Principal 1 – Council spending should be responsible and sustainable, aligning general revenue and expenses

- A complete and clear financial picture is to be presented so Council and the community can fully understand the financial implications of operational plans and project proposals.
- The funding sources should be considered and appropriately applied to the various areas of services, operations and maintenance, and renewals, upgrades and new infrastructure. For example, Council can consider borrowing money to pay for capital expenditure but should not borrow funds for operational activities or services.
- Council should limit its expenditure budget by the expected income for that year. Where there is a significant change to the budget a business case should be submitted to Council for approval by resolution. This provides publicly transparent means for when larger than expected income increases are required.
- Council is to consider the full life-cycle cost when assessing a new service or project. Council accepts that what may be cost effective over the life-cycle of a service or project may not come at the lowest, short-term cost. However, doing the job properly in the first instance is better for the community than undertaking lower cost, lower quality works which may, in the future incur additional lifecycle costs.
- The budget development will be drafted by staff. Councillors are provided with information, support and tools to be able to actively participate in all aspects of budget development before being placed on public exhibition each year.

Financial Principal 2 – Council should invest in responsible and sustainable infrastructure for the benefit of the local community

- Asset management – Council's Long Term Financial Plan and Asset Management plans will be developed together.
- *New works* projects should be presented to Council with a full cost benefit analysis so that clear and transparent decisions can be made and any associated impacts on other services.
- Council will determine its priority projects as part of the integrated planning and reporting process. These projects will be included in the Council's Prospectus and utilised to leverage funding. The projects outlined in the prospectus will be scoped, designed and have business cases developed.
- Council will continue to pursue external funding that is in line with Council's agreed directions and targeted for key projects outlined in the Council's Prospectus or through our risk and prioritisation frameworks. Council should not look to apply for funding or accept funding that does not align with its adopted projects unless the funding provides for current and future expenditure.

Financial Principle 3 – Councils should have effective financial and asset management, including sound policies and processes for performance reporting, asset maintenance and enhancement, funding decisions, capitalisation and risk management

- Performance reporting
 - Council is to plan to achieve the benchmarks set out in the local government financial sustainability ratios.
 - Financial reports are to be presented to Council and the community in plain English with clear definitions to provide information that is simple and easy for the public to understand.
 - The annual financial statements must be prepared in accordance with:
 - the *Local Government Act 1993* and the regulations made thereunder
 - the Australian equivalent to International Financial Reporting Standards.
 - the Local Government Code of Accounting Practice and Financial Reporting; and
 - the Local Government Asset Accounting Manual.
 - Adequate systems, processes and controls must be in place to ensure timely preparation of annual financial statements without the need to apply for extensions of time.
 - Council will clearly articulate the true cost of delivery for each discreet service area.
- Asset maintenance and enhancements
 - Develop, implement and maintain long-term asset management strategy with underlying asset management plans that balance the wants and needs of the community with the financial realities of the Council. Plans should meet best practise and industry standards.
- Funding Decisions
 - Council expects all services and transactions demonstrate a positive return on investment for the community. The measure of a positive return does not necessarily have to equal a monetary return. An economic, social or environmental return is acceptable.
 - Council has a separate investment policy. The purpose of that policy is that Council will maximise the return on the community's investment and at the same time accepting that investment risk appetite is low.
- Capitalisation
 - Council will account for all non-current physical assets owned or managed by Council in accordance with the relevant Accounting Standards and State Government Guidelines.
- Risk Management
 - The Chief Executive Officer (CEO) will implement a comprehensive program of internal and external audits that investigate, test and analyse Councils financial controls to ensure that business practises minimise or mitigate financial risks.
 - Council will work with the NSW Auditor General and its subcontractor to provide high quality, accurate and reliable financial data for the annual financial audit each year. Council's goal is to receive an unqualified audit from its external audit provider.

Financial Principle 4- Council should have regard to achieving intergenerational equity including ensuring that policy decisions are made after considering effects on current and future generations and proportion the costs of its services accordingly

- New debt should only be utilised on new or significantly upgraded asset projects and only after all other funding sources have been exhausted. The term of any new debt should be linked to the life of the asset being funded and is always repaid on a principal and interest basis.
- Council will consider the funding allocation for each new or significantly upgraded infrastructure project including loans in each budget cycle and determine the portion that should be borne by current and future ratepayers

1.4.3 Financial Governance

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 and maintain the ongoing financial sustainability of the Council. Ongoing consideration must be given to the adequacy of all financial information systems and their associated business processes to ensure a modern and compliant method of data capture, process and reporting is maintained into the future.

1.4.3.1 Integrated Planning and Reporting

Section 8C of the Local Government Act (1993) prescribes the principles of IPR as it relates to NSW Councils. Council will ensure there are adequate capturing and reporting systems in place to allow for the IPR program to report as prescribed by Council in its Delivery Plan and associated plans. Financial management inputs will be included in the Resourcing Strategy. This information outlines and forecasts how the organisation intends to implement the Council's Delivery Plan.

Council will ensure that adequate systems are in place to provide accurate and reliable information to be used and integrated into the IPR suite of documents, specifically the Resourcing Strategy.

1.4.4 Responsibilities

1.4.4.1 Elected Council

Responsibility and accountability for the financial management of a council rests with the governing body.

1.4.4.2 Chief Executive Officer (CEO), Leadership Executive Group (LEG)

The CEO and Leadership Executive Group will ensure that staff adhere to the provisions of this policy and follow all associated procedures..

1.4.4.3 Responsible Accounting Officer

Monitoring and reporting of compliance with financial management policy, legislation and codes of practice.

1.4.4.4 Budget Managers

Ensure that budgets reflect the principles included in the policy.

1.5 Supporting documents

1.5.1 BVSC Procedures that relate to this Policy

Procedure No.:	Procedure Name	External or Internal Procedure
6.02.1	BVSC Code of Conduct	External
6.06.01	Financial hardship assistance	External
6.06.03	Debt recovery	External
6.06.04	Pensioner concessions	External
6.06.05	Refunds of payments made by customers	External
6.06.08	Travel and accommodation	Internal
6.06.09	Borrowings	External
4.07.02	Water and sewer billing, metering, and reductions	External

1.5.2 BVSC Policies that Relate to this Policy

Policy No.:	Policy Name
6.02	Behaviour of Councillors and Staff
6.07	Investments
6.08	Procurement of assets and services
	Revenue policy – adopted annually

Note: Policy details may change from time to time. To ensure you are viewing the most recent version please view Council's adopted Policies and Procedures on Council website: