

<b>FINANCIAL MANAGEMENT POLICY (C86)</b>			
Policy No.	C86	Adoption Date:	Council Meeting 18 February 2026
Directorate:	Strategy and Integrity	Department:	Financial Strategy
Revision Date:	Feb 2028		
<b>GOOD GOVERNANCE FRAMEWORK – OVERARCHING PRINCIPLES</b>			
Supporting Pillar:	Pillar 1. Direction & Leadership Pillar 3. Decision Making Pillar 4. Structure, Systems & Policies Pillar 5. Communications & Community Engagement Pillar 7. Risk & Compliance Pillar 8. Monitoring & Performance Review		
Link to Pillar:	South Gippsland Shire Council is committed to complying with the financial management principles of the <i>Local Government Act 2020</i> .		

## 1. PURPOSE

1.1. The purpose of the *Financial Management Policy (C86)* (the Policy) is to:

- 1.1.1 support transparency and accuracy in all of Council's financial activities and ensure compliance with financial reporting requirements;
- 1.1.2 comply with the financial management principles outlined in Division 4 of the *Local Government Act 2020* (the Act), including but not limited to Section 101 and section 102; and
- 1.1.3 comply with various Acts, regulations, accounting standards and Australian Tax Office directions and regulations.

2. This Policy has been developed as South Gippsland Shire Council (Council) oversees a significant annual operating budget and is responsible for managing a substantial portfolio of assets on behalf of the community. It is imperative that Council responsibly manages these finances to provide intergenerational services and facilities that meet the needs of the community and fulfil its statutory obligations, both now and into the future.

## 3. SCOPE

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

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

#### **4. POLICY PRINCIPLES**

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

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

4.1. Financial management principles:

4.1.1. Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with Council's financial policies and strategic plans;

4.1.2. Financial risks must be monitored and managed prudently having regard to economic circumstances.

4.1.3. Financial policies and strategic plans, including the Revenue and Rating Plan must seek to provide stability and predictability in the financial impact on the municipal community.

4.1.4. Accounts and records that explain the financial operations and financial position of the Council must be kept.

4.2. For the purposes of the financial management principles, financial risk, includes any risk relating to the following:

4.2.1. The financial viability of Council, including but not limited to, liquidity risk, credit risk and funding risk;

4.2.2. The management of current and future liabilities of the Council; and

4.2.3. The beneficial enterprises of the Council.

##### **Financial Governance**

4.3. Council will ensure that systems, processes and controls are comprehensively embedded into the organisation to make certain the financial resources of the Council are properly managed, with a view to maintaining the ongoing financial sustainability of the Council.

4.4. The Act provides the statutory framework for which Council must comply. Part 4 of the Act sets out the requirements related to Planning and Financial Management. This Part includes the following divisions:

4.4.1. Division 1 – Strategic planning

4.4.2. Division 2 – Budget processes

4.4.3. Division 3 – Reporting

4.4.4. Division 4 – Financial management

4.5. This Policy determines Council’s approach to ensure best practice financial management and compliance with the above divisions.

**Strategic Planning**

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

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

Component	Outlook	Term	Section of the Act 2020
Community Vision	Long term	10+ years	88
Council plan	Medium term	4 years following a general election	90
Financial plan	Long term	10+ years	91
Asset plan	Long term	10+ years	92
Revenue and rating plan	Medium term	4 years following a general election	93

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

**Financial Sustainability Indicators**

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

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

4.11. Financial sustainability indicators include:

Policy Statement	Measure
Consistent underlying surplus	Adjusted underlying result (%)

	Adjusted underlying result* / Adjusted underlying revenue to be maintained greater than 0%
<b>Ensure Council maintains sufficient working capital to meet its debt obligations as they fall</b>	Working capital (ratio) Current Assets/ Current Liabilities to be maintained above 1.25
<b>Ensure Council maintains sufficient unrestricted cash to meet its debt obligations as they fall excluding funds allocated to financial reserves</b>	Unrestricted working capital (ratio) (Current Assets – Other Reserves) / Current Liabilities to be maintained above 1
<b>That Council maintains total borrowings in line with rate income and growth of the municipality</b>	Loans and borrowings (%) Total borrowings / Rate revenue to be maintained below 60%
<b>Ensure Council maintains an accumulated cash surplus</b>	Raw accumulated surplus (\$) Current Assets (excluding assets held for sale) less Total Liabilities (excluding interest-bearing liabilities, lease liabilities and landfill provision) and Other Reserves to be maintained above \$0

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

### **Budget Process**

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

- 4.12.1. Adopt a budget for each financial year and the following three years by 30 June (or other date fixed by the Minister for Local Government). The budget must give effect to the Council Plan and state the major initiatives to be undertaken and contain required disclosures for rating, financial statements and services funded;
- 4.12.2. Be developed in accordance with Council's financial management principles and in line with its community engagement policy.

### **Budget Parameters**

4.13. Council is committed to maintaining a balanced or surplus budget position that is financially sustainable in the longer term, by balancing the cash management result to \$0. As such, it will reflect the financial sustainability measures outlined in Point 4.11 above.

4.14. The budget will clearly differentiate between:

- 4.14.1. Council's 'base operating budget' to deliver on services;
  - 4.14.2. Staffing establishment;
  - 4.14.3. New or once off initiatives;
  - 4.14.4. Capital Works Program; and
  - 4.14.5. Transfers to reserves, including transfers to the General Reserve held to address shortfalls of unforeseen or emergency expenditure.
- 4.15. Budget Management Procedures/Guidelines that support this Policy and provide guidance in the development of the Annual Budget, are approved by the Chief Executive Officer.

### **Budget Principles**

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

#### **4.16. Grant funded budgets**

- 4.16.1. Grant funding opportunities may be pursued where the benefits are considered to be advantageous to Council and the community, having considered the long-term financial implications and responsibilities to be carried by Council and potential undesirable cost shifting outcomes.

#### **4.17. Operating Budget**

- 4.17.1. The operating budget shall, as far as practicable, differentiate between the base and discretionary spend. In general terms employee costs are incorporated in the base spend, while new initiatives are prioritised and considered separately on their merits.

#### **4.18. Capital Budgets**

- 4.18.1. Capital budgets using Council funds, loans, capital grants and contributions will fund the Capital Works Program. This Program will differentiate expenditure required for renewal of existing assets/infrastructure that form a base level of expenditure, from upgrade/expansion projects and new major capital works.
- 4.18.2. The Capital budget will fund the Program which has been developed in line with Council's *Capital Works Policy (C85)*.
- 4.18.3. Material changes to Council's adopted capital works budget are to be referred to the Quarterly Budget Reviews for consideration.
- 4.18.4. Where funds have been included for works in the approved Asset Management Plan, they may be re-prioritised for timing of delivery within an asset class.

### **Rating and Revenue Strategy**

- 4.19. Council is required to adopt its Revenue and Rating Strategy every four years. The adopted Revenue and Rating Strategy will include (but not limited to):
- 4.19.1. Council's approach for setting discretionary fees and charges;
  - 4.19.2. Specifying differential rates;
  - 4.19.3. Grants and contributions;
  - 4.19.4. Other revenue, such as sale of assets and leasing and licensing; and
  - 4.19.5. Associated regulatory disclosures.

### **Long Term Financial Plan**

- 4.20. Section 91 of the Act requires Council to adopt a *Financial Plan* of at least 10-years by 31 October in the year following a General Election. It must as a minimum:
- 4.20.1. be developed in accordance with Councils deliberative engagement processes;
  - 4.20.2. include statements showing how Council will fund its strategic plans, including the Council Plan; and
  - 4.20.3. define and meet the determined levels of risk in accordance with the financial sustainability ratios as determined by VAGO.
- 4.21. The development of the *Financial Plan* represents the output of the following strategy areas, which when combined, produce the financial direction for Council:
- 4.21.1. Borrowing Strategy
  - 4.21.2. Revenue and Rating Strategy
  - 4.21.3. Capital works projects
  - 4.21.4. Asset management strategies
  - 4.21.5. Reserves
  - 4.21.6. Treasury Management
  - 4.21.7. Operational requirements
- 4.22. In order to maintain financial sustainability, Council will continue to critically evaluate its level of service provision and may have to make a series of difficult decisions, particularly where costs in services part funded by State and Federal Government increase by an amount greater than Council's ability to increase general revenues.
- 4.23. Council is committed to reviewing, updating and adopting the *Financial Plan* in line with the Budget each year.

## Financial Reporting

- 4.24. Monthly financial reports will be provided to the Executive Leadership Team for review.
- 4.25. Quarterly Budget Report – s.97 of the Act requires the Chief Executive Officer to present a quarterly budget report to the Council at an open Council Meeting. This report must include:
- 4.25.1. Comparison of budget to actual results, including income statement and capital works statement;
  - 4.25.2. Explanation of material variations; and
  - 4.25.3. Any other matters prescribed by the Regulations.
- 4.26. Quarter Two Budget Report must contain a statement by the Chief Executive Officer if there is the need to adopt a Revised Budget. It also includes a mid-year budget review that provides the opportunity for the Council to:
- 4.26.1. Review its financial performance to date and make any adjustments to the budget due to factors which may have arisen since the time of adoption.
  - 4.26.2. The opportunity to direct any 'surplus' funds to key Council initiatives or reserves for future use or make decisions about reducing Capital or other expenditure in line with available funds.
- 4.27. Annual Report – s.98 of the Act details the requirements for the Annual Report including the Report of Operations and audited Performance and Financial Statements.
- 4.27.1. In preparing the Financial Statements, Council must also comply with the *Australian Accounting Standards* and achieve an unqualified audit opinion.
  - 4.27.2. When producing these statements, Council will utilise the *Local Government Victoria's Local Government Model Financial Report* as well as adhering to the *Local Government Better Practice Guides* for the *Performance Statement* and *Report of Operations*.
  - 4.27.3. Financial processes will be adjusted based on audit findings to improve efficiency and compliance.

## Risk Management

- 4.28. Council will identify and manage financial risks through regular risk assessments.
- 4.29. Adequate insurance coverage will be maintained to mitigate financial risks
- 4.30. Internal audits will assess financial risks and recommend corrective actions

## Community Engagement

4.31. The development of the *Budget, Rating and Revenue Plan* and the *Long-Term Financial Plan* will be undertaken in accordance with Council's *Community Engagement Policy (C06)* and using deliberative engagement activities where required.

4.31.1. These engagement activities may be undertaken and/or informed by engagement activities undertaken with the development of the *Community Vision, Council Plan* or other strategic plans developed by Council.

## 5. RISK ASSESSMENT

This Policy mitigates Council's risks as described below:

### Reputational

5.1. Non-compliance with this policy subjects Council to poor financial management and the consequent negative impact this would have on the community.

### Financial

5.2. Non-compliance with this policy may result in significant financial risk, potentially leading to Council's inability to maintain long-term financial sustainability.

### Governance

5.3. Compliance with the Act and associated regulations assists Council to responsibly manage its finances and meet its statutory obligations.

### Business Continuity

5.4. It is imperative that Council responsibly manages its finances in order to provide intergenerational services and facilities that are needed for the community and meet its statutory obligations now and into the future.

## 6. IMPLEMENTATION STATEMENT

### Human Rights Charter

6.1. This Policy has considered the Charter of Human Rights and Responsibilities Act 2006.

### Gender Equality

6.2. This Policy has considered the *Gender Equality Act 2020* in its development. The policy is purely administrative in nature and does not benefit any one gender group over any other.

### Roles and Responsibilities

6.3. The Manager Financial Strategy is responsible for overseeing the application of this Policy and updates as required.

## 7. MONITORING, EVALUATION AND REVIEW

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

## 8. REFERENCE DOCUMENTS

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

## 9. DEFINITIONS

Act	Refers to the <i>Local Government Act 2020 (Victoria)</i> , which provides the legislative framework for financial management, planning, and reporting by local councils.
Adjusted Underlying Result	A financial performance indicator that excludes non-recurrent capital grants, non-monetary asset contributions, and other one-off income to reflect the true operating result of Council.
Asset Plan	A long-term strategic document (10+ years) required under Section 92 of the Act, outlining how Council will manage its infrastructure and assets to meet service delivery needs.
Budget	The annual financial plan adopted by Council, including projections for the following three years, which outlines revenue, expenditure, major initiatives, and service funding.
Capital Works Program	A schedule of capital projects funded through Council resources, loans, grants, or contributions, including asset renewal, upgrades, and new infrastructure.
Council Plan	A medium-term strategic plan (4 years) required under Section 90 of the Act, setting out Council's priorities and objectives following a general election.
Financial Plan	A long-term financial strategy (minimum 10 years) required under Section 91 of the Act, detailing how Council will fund its strategic objectives and manage financial risks.
Financial Sustainability Indicators	Metrics used to assess Council's financial health and long-term viability, including ratios for surplus, working capital, self-financing, indebtedness, and borrowings.
Financial Risk	As defined in Section 101(2) of the Act, includes risks related to Council's financial viability and liabilities.
Revenue and Rating Plan	A medium-term plan (4 years) required under Section 93 of the Act, outlining Council's approach to setting rates, fees, and charges.
Treasury Management	The process of managing Council's cash, investments, borrowings, and financial risks to ensure liquidity, safety, and financial sustainability.
Underlying Surplus	A measure of Council's operating performance, indicating whether it generates sufficient revenue to cover its operating expenses without relying on one-off income.
Working Capital Ratio	A liquidity measure calculated as Current Assets divided by Current Liabilities, indicating Council's ability to meet short-term obligations.

Self-Financing Ratio	A measure of Council's capacity to fund capital investment from internal sources, calculated as Net Operating Cash Flow divided by Adjusted Underlying Revenue.
Indebtedness Ratio	A measure of Council's long-term debt burden, calculated as Non-Current Liabilities divided by Own-Sourced Revenue.
Loans and Borrowings Ratio	A measure of Council's reliance on borrowings, calculated as Total Borrowings divided by Rate Revenue.
Business Continuity	The ability of Council to maintain essential treasury and financial operations during disruptions, ensuring resilience and uninterrupted service delivery.
Safety (Financial)	The principle of preserving public funds through prudent investment and risk management practices, ensuring the protection of Council's financial assets.

## 10. REVISION HISTORY

Approved By	Approval Date	Sections Modified	CM9 Ref#
<i>Council Meeting</i>	<i>18 August 2021</i>	<i>New Policy</i>	<i>D7046321</i>
<i>Council Meeting</i>	<i>18 February</i>	<i>Revision</i>	<b><u>D1878826</u></b>

## 11. ATTACHMENT SUMMARY

Nil