

Local Government Better Practice Guide

Model Financial Report 2020-21

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1 Acronyms

AAS	Australian Accounting Standards
BPG	Better Practice Guide
COVID-19	Coronavirus (COVID-19) Pandemic
DJPR	Department of Jobs, Precincts and Regions
FinPro	Local Government Finance Professionals
FTE	Full Time Equivalent
FY	Financial Year
FGRS	Fair Go Rates System
ISPRF	Integrated Strategic Planning and Reporting Framework
LGMFR	Local Government Model Financial Report
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
VAGO	Victorian Auditor-General's Office

2 A message from Local Government Victoria

Welcome to the 2020-21 version of this Better Practice Guide (BPG) which accompanies the Local Government Model Financial Report (LGMFR).

The *Local Government Act 2020* (the Act) received Royal Assent on 24 March 2020 with proclamation to occur in stages. Part 4 of the Act addresses planning and financial management. The legislative requirements to develop strategic planning, budgeting and annual reporting documents in Part 4 came into operation on 24 October 2020. The *Local Government (Planning and Reporting) Regulations 2020* (the regulations) also came into operation on 24 October 2020.

Importantly, the new Act and regulations include transitional provisions that mean the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* continue to apply to the 2020-21 reporting period.

For context this BPG sets out the broader Integrated Strategic Planning and Reporting Framework (ISPRF) introduced by the new legislation and regulations. However the specific requirements for the financial statements in council 2020-21 annual reports continue to refer to the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

The annual reporting responsibilities for Victorian councils also reflect the requirements of Australian Accounting Standards and the Local Government Performance Reporting Framework (LGPRF). The regulations continue to require the financial statements in annual reports to be prepared in accordance with the LGMFR. The LGMFR and BPG are developed to assist councils in the preparation of financial statements for inclusion in their annual report.

Local Government Victoria (LGV) again convened a working group to guide the development of this year's LGMFR and BPG. LGV would like to take this opportunity to acknowledge the contributions of the Local Government Finance Professionals (FinPro), CPA Australia, Crowe Australasia and the Victorian Auditor-General's Office (VAGO) in an observer capacity, to the update of this year's edition of the BPG and LGMFR.

In 2019-20 the introduction of AASB 16 *Leases*, AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* required changes to the primary financial statements and the notes to the accounts. For 2020-21 there are no changes to the primary financial statements.

AASB 1059 Service Concession Arrangements: Grantors applies to Victorian councils from 1 July 2020. Unless a council has entered such an arrangement there is no expected impact from the introduction of this standard.

The key changes to the LGMFR for 2020-21 include:

- All detailed guidance previously located in the BPG has been moved into the LGMFR template and hyperlinked for ease of reference;
- Balance checks have been created in the LGMFR to help users ensure that figures within the financial statements that should agree with each other actually do; and
- Formulas have been added into the primary financial statements to enable better linkages to notes.

A more detailed *summary* of the changes made to both the LGMFR and BPG is available on the Department's website at www.localgovernment.vic.gov.au.

We trust that you find the LGMFR and this associated BPG very practical tools to assist in the preparation of your financial statements for the 2020-21 financial year.

Local Government Victoria

3 Introduction

Local government in Victoria manages approximately \$103.3 billion of community assets and infrastructure and spends around \$9 billion on the provision of services annually.¹ Local government, in partnership with other levels of government, is responsible for aspects of everyday life that people care about deeply – from vibrant and safe public spaces, to accessible libraries, to strong local business and employment opportunities. Effective planning and reporting by councils is essential for ensuring transparency and accountability to the community and other levels of government as to how public money is being spent and the quality of services delivered.

3.1 Local Government Act 2020

3.1.1 Objectives and purpose

The *Local Government Act 2020* (the Act) received Royal Assent on 24 March 2020 with proclamation to occur in stages. The Act is a principles-based Act, removing unnecessary regulatory and legislative prescription.

The objectives of the Act are as follows:

The objectives of this Act are to ensure that –

- (a) local government continues to be constituted as a democratically elected tier of Government in Victoria; and*
- (b) Councils are constituted as representative bodies that are accountable, transparent, collaborative, efficient and engaged with their communities; and*
- (c) Councils have the functions and powers necessary to enable Councils to perform their role.²*

The purpose of the Act is as follows:

*The purpose of this Act is to give effect to section 74A(1) of the **Constitution Act 1975** which provides that local government is a distinct and essential tier of government consisting of democratically elected Councils having the functions and powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district.³*

3.1.2 Role of a council

The Act specifies the role of a council is:

“...to provide good governance in its municipal district for the benefit and wellbeing of the municipal community.”⁴

The provision of good governance includes a council performing its role in accordance with the overarching governance principles. The overarching governance principles are set out in section 9(2) of the Act. The overarching governance principles include (amongst other principles) that:

- Council decisions are to be made and actions taken in accordance with the relevant law;
- The economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted;

¹ Victorian Auditor-General's Office (2019), *Results of 2018-19 Audits: Local Government*

² Section 4(a), 4(b) and 4(c) of the *Local Government Act 2020*

³ Section 1 of the *Local Government Act 2020*

⁴ Section 8(1) of the *Local Government Act 2020*

- The ongoing financial viability of the Council is to be ensured; and
- The transparency of Council decisions, actions and information is to be ensured.⁵

The overarching governance principles are supplemented by the supporting principles. Section 9(3) requires councils to take into account the supporting principles in giving effect to the overarching governance principles. The supporting principles are:

- The community engagement principles;
- The public transparency principles;
- The strategic planning principles;
- The financial management principles; and
- The service performance principles.⁶

It is a statutory requirement under the Act that councils prepare and report on long, medium and short-term plans to discharge their duties of accountability and transparency to their communities.

3.1.3 Transitional provisions

Part 4 of the Act addresses planning and financial management. The legislative requirements to develop strategic planning, budgeting and annual reporting documents in Part 4 came into operation on 24 October 2020. The *Local Government (Planning and Reporting) Regulations 2020* (the regulations) also came into operation on 24 October 2020.

However, the Act and regulations also include transitional provisions which effectively mean the requirements under the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* remain for the 2020-21 reporting period.

Section 329(7) of the Act includes the following:

*“(7) Despite the commencement of section 362, the **Local Government Act 1989** as in force immediately before that commencement continues to apply to, and in respect of, the following—
....(b) the preparation of the annual report for the financial year ending 30 June 2021;....”⁷*

Part 5 of the regulations includes the following:

16 Local Government (Planning and Reporting) Regulations 2014

*Despite the revocation of the *Local Government (Planning and Reporting) Regulations 2014*, those Regulations as in force immediately before 24 October 2020 continue to apply in relation to the financial year which commenced on 1 July 2020.⁸*

⁵ Section 9(2) of the *Local Government Act 2020*

⁶ Section 9(3) of the *Local Government Act 2020*

⁷ Section 329(7) of the *Local Government Act 2020*

⁸ Regulation 16 of the *Local Government (Planning and Reporting) Regulations 2020*

3.2 About this guide

Councils are required to prepare an annual report in respect of each financial year⁹ consisting of three parts:

- › **Report of operations:** information about the operations of the council
- › **Performance statement:** audited results achieved against the prescribed performance indicators and measures
- › **Financial statements:** audited financial statements prepared in accordance with the Australian Accounting Standards.

This guide has been developed to help local government in meeting statutory requirements relating to the preparation of their annual financial statements. Guidance on the preparation of the report of operations and audited performance statement can be found at the website of the Department of Jobs, Precincts and Regions (DJPR).

This guide is presented in three sections.

- › **Integrated Strategic Planning and Reporting Framework** provides an overview of the relationship between the key planning and reporting documents.
- › **Local Government Model Financial Report (overview)** provides an overview of statutory and other requirements in relation to annual financial statements.
- › **Local Government Model Financial Report (guidance)** provides context for the detailed guidance included in the LGMFR on the preparation and format of the annual financial statements.

The guide is intended for use by local government finance professionals. Each council retains the responsibility for preparing its annual financial statements, including the format and the disclosures made. This guide, along with the LGMFR, represents the annual financial statements presentation required by LGV. The guidance in the LGMFR directs users to related information and further guidance, including Australian Accounting Standards (AAS). Footnotes are used to reference legislative provisions and other relevant information.

⁹ Section 131(1) of the *Local Government Act 1989*

3.2.1 Preparation of this better practice guide

LGV is responsible for the development of this BPG and will update and reissue it on an annual basis. LGV convened a working group to guide the development of both the 2020-21 LGMFR and this guide.

The working group is comprised of representatives from the accounting profession, the local government finance professionals (FinPro), CPA Australia and LGV. Technical advice and assistance in preparing the LGMFR and BPG was provided by Crowe. Representatives of VAGO also attended working group meetings in an observer capacity. LGV would like to take this opportunity to acknowledge the contribution of each of the members of the working group towards the development of the LGMFR and this guide.

Model Accounts 2020-21 working group membership

Accounting profession	
Martin Thompson, CPA	Crowe
Ram Subramanian, CPA	CPA Australia
Local government finance professionals (FinPro)	
Danny Wain, CPA	Monash City Council
Tony Rocca, CA	Maroondah City Council
Luke Costa, CA	Maroondah City Council
Department of Jobs, Precincts and Regions	
Daniel O'Shea, CPA	Local Government Victoria
Sadiq Hussaini, FCCA	Local Government Victoria
Attendance in observer capacity	
Sanchu Chummar, CA	Victorian Auditor-General's Office (VAGO)
Kevin Chan, CA	Victorian Auditor-General's Office (VAGO)
Jung Yau, CA	Victorian Auditor-General's Office (VAGO)

4 Integrated Strategic Planning and Reporting Framework

Part 4 of the *Local Government Act 2020* addresses planning and financial management. The legislative requirements to develop strategic planning, budgeting and annual reporting documents in Part 4 came into operation on 24 October 2020.

The Act introduces strategic planning principles for Victorian councils which include an integrated approach to planning, monitoring and performance reporting.¹⁰ This important shift from a more prescriptive form of legislation to a new Act that is principles-based is explored further in the *Integrated Strategic Planning and Reporting Discussion Paper* which is available at <https://engage.vic.gov.au/local-government-act-2020>.

Part 4 of the *Local Government Act 2020* requires councils to prepare the following:

- A Community Vision (for at least the next 10 financial years);¹¹
- A Council Plan (for at least the next 4 financial years);¹²
- A Financial Plan (for at least the next 10 financial years);¹³
- An Asset Plan (for at least the next 10 financial years);¹⁴
- A Revenue and Rating Plan (for at least the next 4 financial years);¹⁵
- An Annual Budget (for the next 4 financial years);¹⁶
- A Quarterly Budget Report;¹⁷
- An Annual Report (for each financial year);¹⁸ and
- Financial Policies.¹⁹

The Act also requires councils to prepare:

- A Workforce Plan (including projected staffing requirements for at least 4 years);²⁰

The legislative timeframes for development, review and adoption of the elements of the Integrated Strategic Planning and Reporting Framework (ISPRF) and the time horizons for each element vary. However there are also many linkages, including the central importance of community engagement. It is therefore vital to recognise the relationships and degrees of integration between different elements. To aid this process, visual representations of the ISPRF have been developed.

¹⁰ Section 89(2)(a) of the *Local Government Act 2020*

¹¹ Section 88 of the *Local Government Act 2020*

¹² Section 90 of the *Local Government Act 2020*

¹³ Section 91 of the *Local Government Act 2020*

¹⁴ Section 92 of the *Local Government Act 2020*

¹⁵ Section 93 of the *Local Government Act 2020*

¹⁶ Section 94 of the *Local Government Act 2020*

¹⁷ Section 97 of the *Local Government Act 2020*

¹⁸ Section 98 of the *Local Government Act 2020*

¹⁹ Section 102 of the *Local Government Act 2020*

²⁰ Section 46(4)(a) of the *Local Government Act 2020*

The following diagram provides an overview of the core legislated elements of an integrated strategic planning and reporting framework and outcomes.

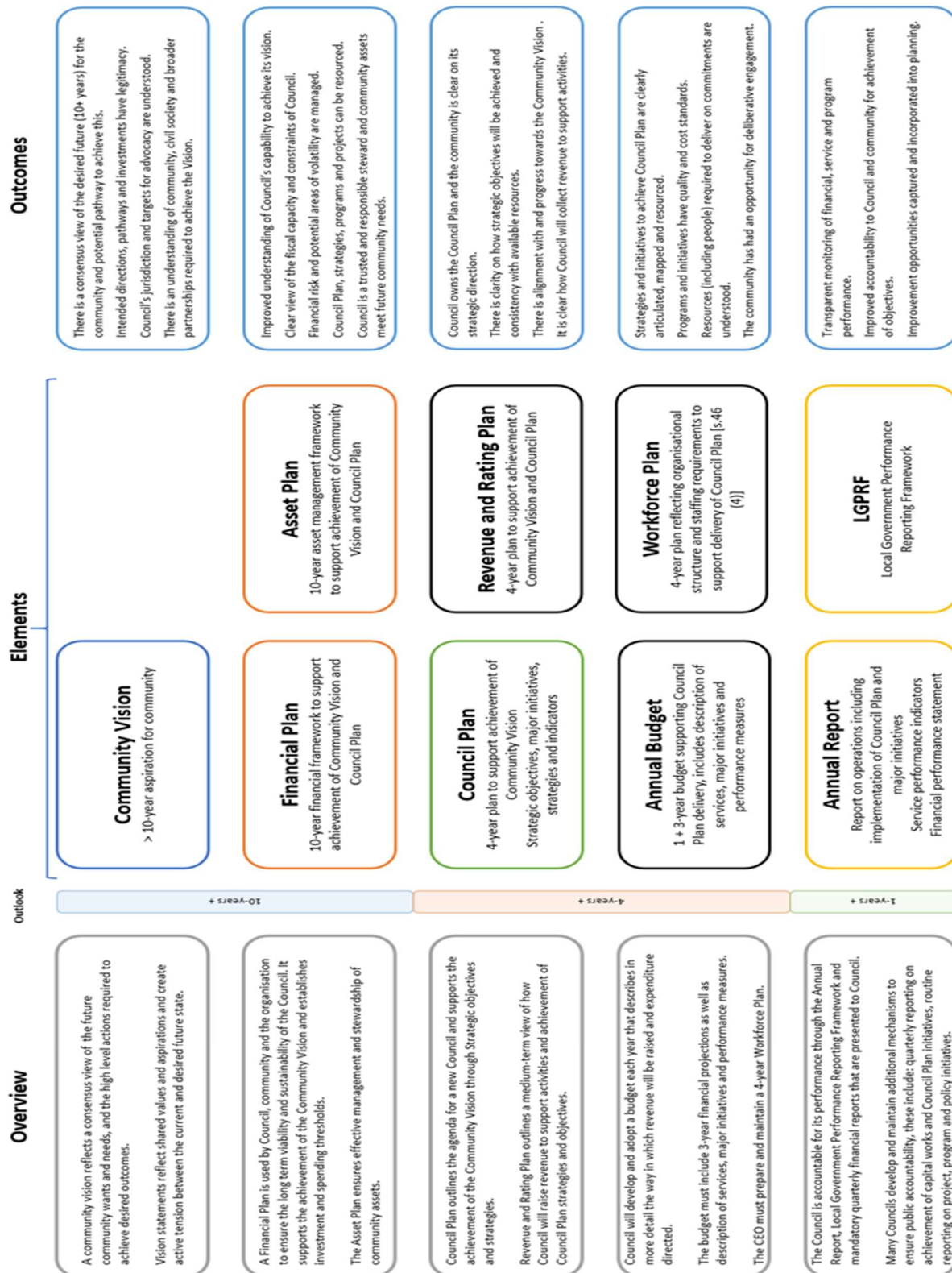


Figure 1: Department of Jobs, Precincts and Regions 2020

The following figure demonstrates how each element might inform or be informed by other parts of the integrated framework.

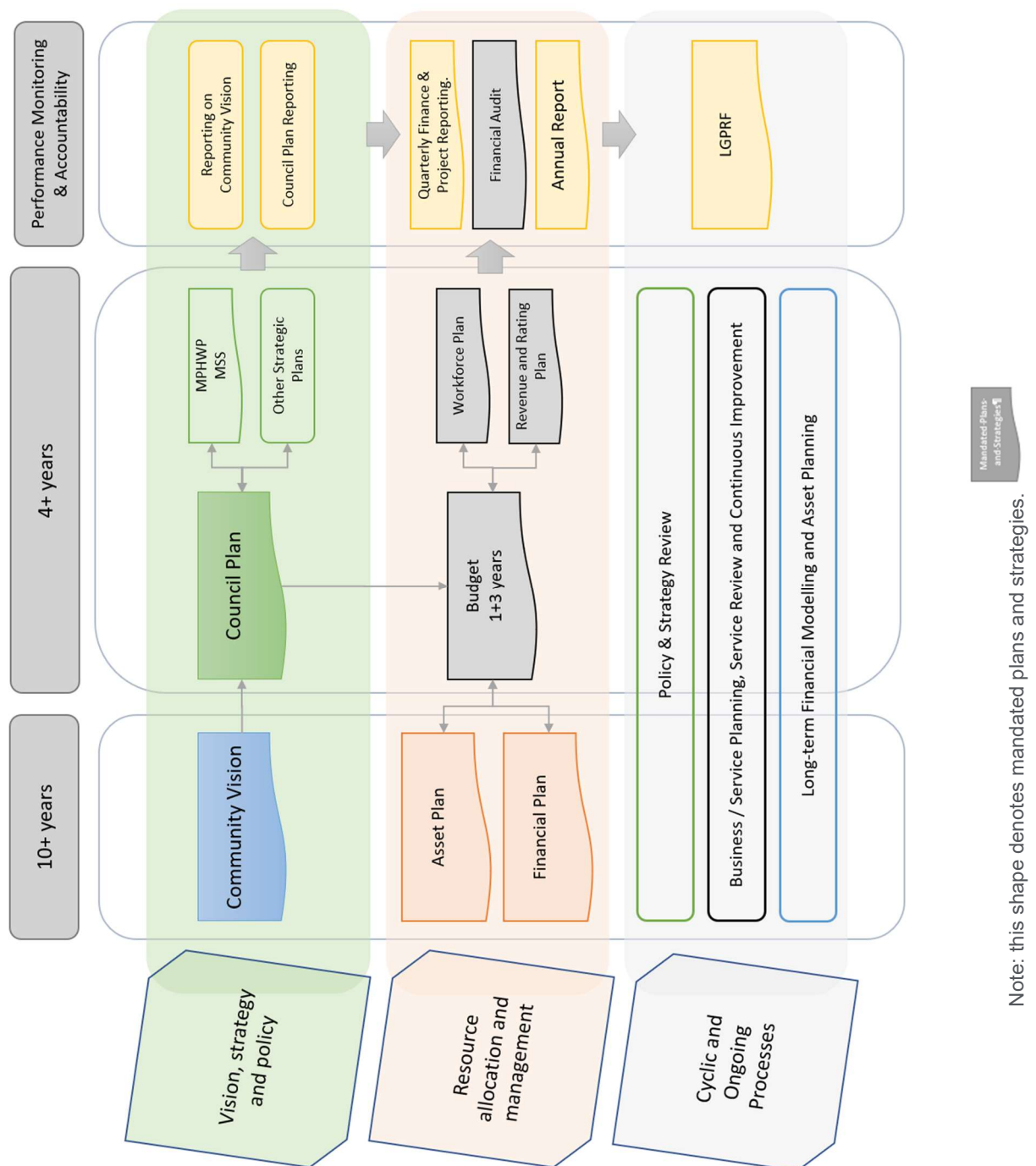


Figure 2: Department of Jobs, Precincts and Regions 2020

While this guide is focused on one element of the ISPRF – the financial statements within an Annual Report – it is important to recognise the broader framework within which this reporting occurs.

5 Local Government Model Financial Report (Overview)

5.1 Statutory and regulatory requirements

5.1.1 The Act requires a council's annual report to contain audited financial statements

Sections 131, 132 and 133 of the *Local Government Act 1989* state that:

- the financial statements must be prepared in accordance with the regulations and include any other information required by the regulations²¹
- the financial statements must be submitted to the auditor as soon as possible after the end of the financial year and certified in their final form by two councillors, the CEO and principal accounting officer²²
- the annual report must contain a copy of the auditor's report on the financial statements²³
- the annual report must be submitted to the Minister for Local Government within three months of the end of each financial year (30 September).²⁴

In addition to sections 131, 132 and 133 of the Act, councils should review part four of the regulations for further information required in the financial statements.

5.1.2 The regulations require a council's financial statements to be prepared in accordance with the Local Government Model Financial Report

Regulations 19 and 20 in part four of the *Local Government (Planning and Reporting) Regulations 2014* state that:

- the financial statements must be prepared in accordance with the Local Government Model Financial Report²⁵
- the financial statements must contain a statement of capital works²⁶
- the financial statements must include specified other information as notes.²⁷

5.1.3 Checklist

The financial statements must:

- › be prepared in accordance with the Local Government Model Financial Report including a statement of capital works; and
- › include other information required by the regulations.

²¹ Section 131(5)(a) and (b) of the *Local Government Act 1989*

²² Section 132(1)(2) and (5) of the *Local Government Act 1989*

²³ Section 131(2)(e) of the *Local Government Act 1989*

²⁴ Section 133(1) of the *Local Government Act 1989*

²⁵ Regulation 19(b) of the *Local Government (Planning and Reporting) Regulations 2014*

²⁶ Regulation 19(a) of the *Local Government (Planning and Reporting) Regulations 2014*

²⁷ Regulation 20 of the *Local Government (Planning and Reporting) Regulations 2014*

6 Local Government Model Financial Report (Guidance)

6.1 Context and development of guidance

Under the *Local Government (Planning and Reporting) Regulations 2014*, Local Government Model Financial Report means the *Local Government Model Financial Report published by the Department from time to time including on the Department's Internet website*.²⁸ The LGMFR refers to the Microsoft excel workbook available on the website of the Department of Jobs, Precincts and Regions (DJPR). This LGMFR Better Practice Guide is separate and is provided to assist preparers.

The LGMFR has been developed to illustrate as widely as possible the minimum disclosure requirements for councils. It is expected that councils will follow the format, presentation and disclosures in the LGMFR. In certain limited circumstances additional disclosures and presentation formats may be required in order to meet the requirements of AAS or report on specific local issues. The guidance in the LGMFR provides some examples of when additional disclosures and presentation formats may be required. Where disclosures illustrated in the LGMFR are not relevant to an individual council they may be omitted as appropriate.

It is expected that local government finance professionals exercise professional judgement in preparing their financial statements in accordance with the LGMFR.

The LGMFR is underpinned by seven guiding principles.


Guiding Principles

1. The presentation of the financial statements should promote transparency and accountability of local government to stakeholders.
2. The pursuit of consistency in local government financial statements is important but the primary role is to recognise and report responsibly on relevant local issues.
3. By law the financial statements must be prepared in accordance with the LGMFR which has been developed to illustrate as widely as possible the minimum disclosure requirements for councils.
4. While the LGMFR is used as a basis for preparing the financial statements, subject to each council's individual circumstances, the statements must also be an accurate and transparent representation of local issues.
5. Local government finance professionals are in the best position to make informed decisions about the appropriateness or otherwise of relevant disclosures and the exercise of professional judgement, in excess of the minimum requirements, in preparing the financial statements.
6. In the event of any conflict between the requirements of the LGMFR and the requirements of the AAS, the requirements of the AAS take precedence.
7. When preparing financial statements, local government finance professionals should have regard to the principles of sound financial management set out in section 136 of the *Local Government Act 1989*.

For the 2020-21 reporting year the detailed guidance previously included in this BPG has been moved to within the LGMFR itself. This change aims to allow users to quickly access any relevant guidance from within the LGMFR template and includes hyperlinks for ease of use.

The detailed guidance in the LGMFR is provided to assist local government finance professionals in preparing the council's annual financial statements. For ease of referencing each piece of guidance

²⁸ Regulation 5 of the Local Government (Planning and Reporting) Regulations 2014



has been assigned a unique number. Where applicable, references to the *Local Government Act 2020*, the Local Government (Planning and Reporting) Regulations 2020, the *Local Government Act 1989*, the Local Government (Planning and Reporting) Regulations 2014, Australian Accounting Standards and other authoritative pronouncements are also included.

7 Glossary

Act	means the Local Government Act 2020
Annual report	means a report of the council's operations of the previous financial year and contains a report of operations, audited financial statements and an audited performance statement
Australian Accounting Standards (AAS)	means the accounting standards published by the Australian Accounting Standards Board
Better practice	means that in the absence of legislation or a relevant Australian Accounting Standard this commentary is considered by Local Government Victoria to reflect better practice reporting
Budget	means a plan setting out the services and initiatives to be funded for the financial year and the subsequent 3 financial years and how they will contribute to achieving the strategic objectives specified in the council plan
Council plan	means a plan setting out the medium-term strategic objectives, strategies, strategic indicators and resources reflecting vision and aspirations of the community for the next four years
Financial statements	means the financial statements and notes prepared in accordance with the Local Government Model Financial Report, Australian Accounting Standards and other applicable standards as they apply to the general purpose financial reports and statement of capital works, included in the annual report
Financial year	means the period of 12 months ending on 30 June each year
Heritage asset	means an asset with historic, artistic, scientific, technological, geographical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it
Minister	means the Minister for Local Government
Performance statement	means a statement including the results of the prescribed service performance indicators, financial performance indicators and sustainable capacity performance indicators for the financial year and included in the annual report
Integrated Strategic Planning and Reporting Framework	means the integrated approach to planning and reporting set out in the Act and Regulations. The framework includes documents that are required to be prepared by Councils to ensure transparency and accountability to local communities in the performance of functions and exercise of powers under the Act. Community engagement is a key aspect of the ISPRF.
Principal accounting officer	means the person designated by the Chief Executive Officer of a Council as the officer responsible for managing the Council's finances

Regulations	means the Local Government (Planning and Reporting) Regulations 2020
Report of operations	means a report containing a description of the operations of the council during the financial year and included in the annual report
Specialised assets	means assets designed for a specific limited purpose. Specialised assets include buildings such as schools, hospitals, court houses, emergency services buildings (police, fire, ambulance and emergency services), specialised buildings to house infrastructure (pump stations, etc.), some heritage properties and most infrastructure assets

8 References

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