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| Local Government Act 2020 – Principles Financial Management |

The *Local Government Act 2020* is a principles-based Act, removing unnecessary regulatory and legislative prescription.

## Financial Management

Councils manage significant finances on behalf of their communities and have an obligation to manage these finances responsibly to ensure the delivery of important services and facilities. A significant percentage of a council’s revenue comes from rates, and the community has expectations that these rates will be used to deliver an array of services and significant infrastructure.

The services delivered by councils contribute significantly to the quality of life of residents. Although they vary from council to council, these services often include childcare, primary health care, personal/home care services, sports facilities, public spaces and libraries. This is particularly true in rural and remote areas where the council may be the only provider of some of these services. It is essential for the health and wellbeing of these communities that councils manage their finances responsibly, sustainably and transparently.

Underpinning these expectations is need for financial sustainability. Although the previous Act did include principles for financial management, sustainability was not included. It is, however, vitally important that councils undertake responsible spending and investment that ensures financial, social and environmental sustainability.

The new Local Government Act 2020 is also intended to create a legislative environment that embraces innovation, modern business practices and

microeconomic reform. The Act no longer contains provisions that may be considered to impede collaboration and innovation, particularly those needing elaborate corporate structures for simple service-sharing arrangements between councils. The new Act is designed to actively encourage collaboration.

## What it means

The Act says that a council must prepare and adopt financial policies that give effect to the financial management principles at section 101 of the Act:

* Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
* Financial risks must be monitored and managed prudently having regard to economic circumstances;
* 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;
* Accounts and records that explain the financial operations and financial position of the Council must be kept.

## Expectation

Councils must apply the financial management principles to their finance policies and planning. Councils should note that these principles must apply to the development of the ten-year Financial Plan, which is to be developed as part of a council’s cycle of strategic planning.

When developing and applying financial management policies, councils should have regard for the other principles within the Act. For example, strategic planning documents should be developed in line with financial management policies, should be subject to community engagement and should consider service delivery and public transparency.

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