



Government of **Western Australia**
Department of **Local Government and Communities**

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Integrated Planning and Reporting

Long Term Financial Plan Guidelines

September 2016

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The Department of Local Government and Communities acknowledges and thanks the local governments that attended the consultation workshops in March 2016. The comments provided in the workshops were invaluable in revising the Integrated Reporting Framework and Guidelines, Advisory Standard, Asset Management Guidelines and Long Term Financial Plan Guidelines.

The Department also wishes to thank those who reviewed various draft revised documents and provided feedback. The final documents were significantly improved as a result.

Finally, the Department thanks Localise for designing and facilitating the workshops, and preparing the draft and final revised suite of documents.



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1. Introduction

The Integrated Planning and Reporting Framework

Integrated Planning and Reporting (IPR) is a framework for local governments to:

- Articulate the community's vision, outcomes and priorities
- Allocate resources to achieve the vision, striking a considered balance between aspirations and affordability
- Monitor and report progress

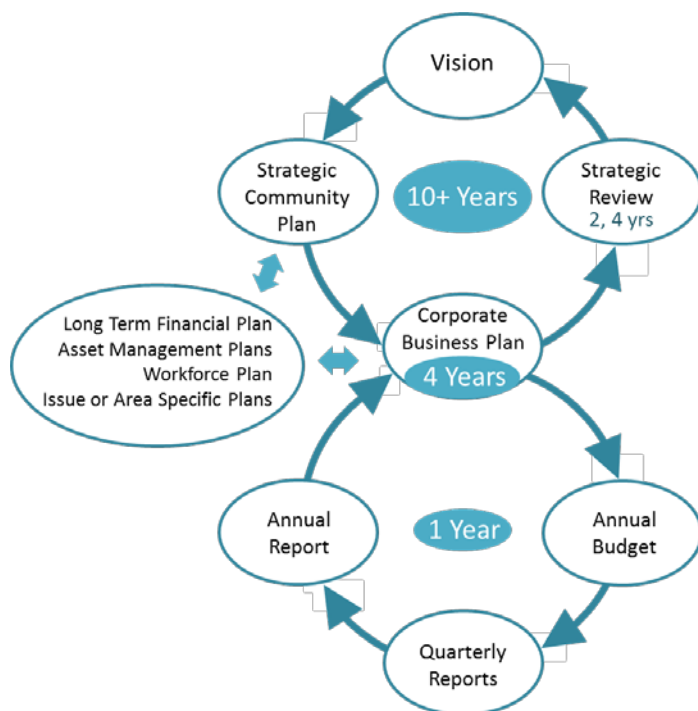
IPR consists of the following "suite" of plans (see figure 1 below):

- A Strategic Community Plan that clearly shows the community vision, strategic direction, long and medium term priorities and resourcing implications with a horizon of 10+ years
- A Corporate Business Plan which contains a four-year delivery program, aligned to the Strategic Community Plan, and accompanied by four-year financial projections
- Informing Strategies, consisting of the core Informing Strategies (Long Term Financial Plan, Asset Management Plan and Workforce Plan) and any other issue or area specific council plans (e.g. Disability Access and Inclusion Plan) that inform the Strategic Community Plan and Corporate Business Plan. The core Informing Strategies play a vital role in prioritisation and integration.

The Long Term Financial Plan is a 10-year rolling plan that informs the Corporate Business Plan in the activation of Strategic Community Plan priorities. The Long Term Financial Plan includes robust forecast budgets for four years accompanying the Corporate Business Plan. From these planning processes, annual budgets that are aligned with strategic objectives can be developed.

The Long Term Financial Plan is therefore a key element of the Integrated Planning and Reporting Framework that enables local governments to set priorities, based on their resourcing capabilities, for the delivery of short, medium and long term community priorities. It is also an indicator of a local government's long term financial sustainability and allows early identification of financial issues and their longer term impacts. The Long Term Financial Plan highlights linkages between specific plans and strategies and enhances the transparency and accountability of the council to the community.

Figure 1: Integrated Planning and Reporting Cycle



The Department of Local Government and Communities publishes a [suite of other documents](#) to assist local governments and communities to develop competence in IPR. Other information and resources will be added as they are developed:

- [Integrated Planning and Reporting Framework and Guidelines](#)
- [Integrated Planning and Reporting Advisory Standard](#)
- [Asset Management Framework and Guidelines](#)
- [Workforce Planning Toolkit](#)
- [Model Long Term Financial Planning](#)
- [Abridged Model Long Term Financial Planning](#)
- [Long Term Financial Planning Tools](#)
- [Community Development: A Guide for Local Government Elected Members](#)
- [Working Effectively with Local Governments: A Guide for Community Sector Organisations](#)

The Advisory Standard published by the Department of Local Government and Communities refers to Achieving, Intermediate and Advanced Standards of IPR performance. In the lead up to July 2013 when the IPR regulatory requirements came into effect, and since, local governments have been steadily working towards achieving the regulatory requirements and improving practice. Local Governments should set achievement targets based on an appropriate pathway of continuous improvement for their organisation.

2. Purpose of Guidelines

The Long Term Financial Plan Guidelines outline a suggested methodology for local governments to develop a Long Term Financial Plan to inform the Corporate Business Plan and Annual Budget.

The Long Term Financial Plan should be a high-level document that can be easily understood. The Long Term Financial Plan is often presented in two parts – a narrative section followed by tables of financial projections covering the ten years of the plan. The projections will be backed up by supporting documentation such as detailed spreadsheets, schedules and working papers. The Long Term Financial Plan should contain enough information to be useful and needs to be sufficiently detailed to enable the calculation of statutory financial ratios.

Alternatives to the methodology and format suggested in these Guidelines can be used. As a minimum the Long Term Financial Plan should incorporate 10-year financial forecasts including:

- Forecast income and expenditure statement
- Statement of cash flows
- Rate setting statement
- Statement of financial position
- Equity statement
- Loan Statement
- Cash Reserves

These statements must be supported by:

- Details of assumptions on which the plan has been developed
- Projected income and expenditure
- Methods of measuring performance - Key Performance Indicators (KPIs)
- Scenario modelling and sensitivity analysis
- Major capital works schedules
- Financial risk assessments

To retain alignment with the Corporate Business Plan, the Long Term Financial Plan needs to be a rolling and iterative document that is reviewed annually, and provides robust financial projections for the current and following three years.

A Model Long Term Financial Plan is available from the Integrated Planning and Reporting pages of the Department of Local Government and Communities' website:

<https://www.dlhc.wa.gov.au/Publications/Pages/IPR-Model-Long-Term-Financial-Planning.aspx>

Other resources are available to assist local governments in long term financial planning. It is recommended that practitioners obtain a copy of Practice Note 6 "Long Term Financial Planning", a joint publication of the Institute of Public Works Engineering Australasia (IPWEA) and the Australian Centre of Excellence for Local Government (ACELG). This publication examines some of the issues in long term financial planning in greater depth. It is available for hardcopy purchase or free download from: <http://www.ipwea.org/pn6>

Some key points to note from Practice Note 6 include:

- Local governments are typically asset rich and income poor
- Local government assets are typically long lived and therefore demand long term financial planning to deal with maintenance and eventual replacement
- Local governments must become expert at financial and asset management planning in order to remain financially viable
- Long term financial planning is critical when managing a large stock of long lived assets that generate service to the community
- The Long Term Financial Plan must be underpinned by a financial strategy – it must be taking the local government towards a goal.

3. Forecasting Issues

The Long Term Financial Plan is by its nature a forecasting document. Financial forecasting aims to quantify the future impacts of current decisions and identify the available options to close the gap between revenues and expenditure. It informs decision making and priority setting and assists the local government to manage community growth or contraction. It also assists management of cash flows and funding requirements, community assets and risk.

To be useful, forecasting should use the most current information available. Forecasting processes should be accurate, reliable and easily understood, and the results regularly reviewed and updated. There should be particular attention to the level of accuracy of the four years that accompany the Corporate Business Plan. Years (5-10) will have a higher reliance on assumptions.

Critical considerations in forecasting include:

- The purpose of the forecast
- The level of accuracy required
- Who to involve in data gathering and preparing forecasts
- The frequency of reviews to ensure currency of information
- The internal systems required to bring processes together
- Across-organisation reporting
- Identification of data sources and indices
- Inclusion of “whole-of-life” costing for major projects
- A comprehensive Asset Management Plan
- A comprehensive Workforce Plan showing workforce requirements and costs
- The ability to interpret historical data and forecast financial ratios

4. Financial Risk Assessments in the Long Term Financial Plan

Long term financial planning in a dynamic environment has to accommodate some level of uncertainty. The ability to accurately forecast over a long period is likely to be hampered by uncertainties such as the availability of grant funding; fluctuating interest rates; economic trends; and demographic and political change.

At the project level, key risks usually occur around:

- Approvals – where a future project may require environmental or planning approvals
- Land acquisition and construction costs – which can be subject to variability in line with market forces
- Funding – where a future project is dependent on uncertain grant funding

The timescale of a Long Term Financial Plan makes it impractical to attempt to identify and manage all risks for all projects included in the plan. As the Long Term Financial Plan is both rolling and iterative, the level of uncertainty reduces as the timeframe shortens. Annual reviews lead to adjustments in the Long Term Financial Plan as uncertainties start to firm up.

The Long Term Financial Plan should include some commentary on where the most significant financial risks are situated and how the local government is monitoring or treating the risk. Some of the significant risks may be highlighted through scenario modelling and sensitivity analysis. See how the hypothetical Town of Eagle Bay dealt with the risk assessment requirements of the Long Term Financial Plan, on page 17 of the Model Long Term Financial Plan, available here:

<https://www.dlgc.wa.gov.au/Publications/Pages/IPR-Model-Long-Term-Financial-Planning.aspx>

5. Starting the Process: Assumptions Underpinning the Long Term Financial Plan

In building the Long Term Financial Plan, it may be useful to refer to the Model Long Term Financial Plan published in the Integrated Planning and Reporting pages of the Department of Local Government and Communities' website:

<https://www.dlgc.wa.gov.au/Publications/Pages/IPR-Model-Long-Term-Financial-Planning.aspx>

Determine whether the Long Term Financial Plan will be developed based on a detailed Chart of Accounts, or on an activity or program level. The choice should allow modelling to test the local government's ability to deliver community services and assets under various scenarios.

Show in an initial model the local government's position over the next 10 years without any changes to current policy. Further models should explore alternative community priority scenarios, so that the local government can determine and demonstrate if, and how, those various community priority scenarios could be resourced. A number of assumptions will need to be made and these will form a foundation for the development of the plan.

Determine any changes in the internal and external environments which may impact on the operations of a local government. A local government may be able to control or influence most of the internal impacts, but has little influence over external factors.

Identify internal factors with the potential to influence the long term financial situation including community expectations, financial capacity, service delivery areas and levels, infrastructure needs, asset quality, workforce requirements and the local government's capabilities and resources.

Identify external factors with the potential to influence the long term financial situation including changes in population and demographics such as age dispersion, income

and unemployment levels, diversity of the local economy, economic growth, legislative requirements and government policy.

Develop assumptions relating to internal and external influences and document and explain these in the Plan.

Although a number of examples are detailed below, it is better for a local government to thoroughly understand the key assumptions used in developing its Long Term Financial Plan and to change these over time, than to expend resources and effort analysing a range of variables for which accurate current information may not be available. Assumptions could be based on the following factors.

A demographic analysis of the local government area

Examine past demographic trends and anticipate future changes that will impact the Long Term Financial Plan. This may involve:

- Examination of population data over the past 10 years, identifying any demographic trends and reasons for these, and projecting likely trends over the next 10 years or more
- Determining the impact of an ageing population on future service needs
- Identifying demographic changes occurring in neighbouring local governments that could impact on the district

Economic growth and development of the local government area

Identify economic growth and development issues that could impact in the future. This may involve:

- Analysis of economic growth over the past 10 years, identifying any trends and reasons for these and projecting likely trends over the next 10 years
- Analysis of any local government plans that will affect future economic growth
- Analysis of the impacts of population and demographic changes on economic growth
- Identifying new industrial or business subdivisions or developments that will affect economic growth.

National and State economic factors

Identify national and state factors that will have impacts. Analysis could include:

- Future inflation forecasts (Australian Bureau of Statistics or Treasury forecasts)
- Interest rate movements – over the past 10 years and forecasts for the next 10 years (Western Australian Treasury Corporation forecasts)
- Any known state or federal government policies that will impact in future.

Service delivery and service levels

These are critical to any financial forecasts. They link the community needs to its willingness to pay for the services to meet those needs. Increased service levels are likely to involve increased costs. Considerations could include:

- Will the existing services and level of service delivery be maintained?
- Does the Strategic Community Plan or Asset Management Plan indicate a change in service levels?
- What is included in the Strategic Community Plan that may impact service delivery?
- Will new services be implemented (for example, services to seniors for an ageing population)?
- What is included in existing local government plans that could influence service levels (for example: Recreation Plan, Active Ageing Plan and the like)?

Major planned expenditure and capital works

Major expenditures and capital works in the Strategic Community Plan and Asset Management Plan should be included in the assumptions detailed in the Long Term Financial Plan. For example - a Council may be planning to replace a library building in 5 years' time. In this case, assumptions regarding the financial outlays for the new land and buildings including fit out, as well as any inflows of capital from the disposal of the old asset, will need to be brought into the Long Term Financial Plan.

Financial strategies

A local government's financial strategy will underpin the Long Term Financial Plan. Valid financial strategies could include:

- Continuous improvement in the financial position of the local government
- The achievement or maintenance of operating surpluses each year
- The maintenance of a fair and equitable rating structure
- Maintaining or improving service level standards
- Reliance on debt to fund capital works
- Maintenance of cash reserves for future commitments
- Increasing reserves for asset maintenance and renewal
- Achieving a specified proportion of cost recovery for services
- Inter-generational equity

Revenue and expenditure forecasts can be developed based on the chosen strategy.

Workforce Planning

As an informing strategy within the Integrated Planning and Reporting Framework, workforce planning has vital linkages to long term financial planning. Both current and future workforce requirements will be identified by a local government in its workforce planning process, with requirements and costs carried across from the Workforce Plan to the Long Term Financial Plan. Associated asset management requirements will also be included.

6. Revenue Projections

The principal sources of revenue for local governments are: rates; service charges; user charges and fees; grants; contributions and donations; interest on investments; net gains on the disposal of assets; and 'other revenue'. To forecast future revenues in the Long Term Financial Plan, each of these sources needs to be assessed in light of the relevant assumptions and the Strategic Community Plan.

Rates and service charges

Matters to consider could include:

- The impact of the local government's rating policy
- Is the basis of rates suitable (UV / GRV)?
- Are there inequities to be addressed that will impact revenue levels (for example, significant non-rural activities on rural land that should be rated on GRV)?

- Are there new or planned subdivisions or developments that will impact on rate growth?
- What annual increases should be applied?
- Are there specific works, services or facilities to be provided for which special area rates are likely to be introduced?
- Will economic factors impact on rate collections (and hence cash flows) – for example: industry downturns?
- Should statutory service charges be introduced or reviewed?
- Is the local government's rate coverage ratio sufficient?

The Long Term Financial Plan should include details of how rates and service charges have been calculated over the period and detail the assumptions applied.

User charges and fees

Matters to consider could include:

- To what extent are user charges and fees based on user-pays and full cost recovery?
- Are new services proposed for which new fees can be introduced?
- Are there existing services for which fees should be introduced?
- Do existing fees need to be reviewed?
- Do existing fees cover costs?

Grants

Matters to consider could include:

- Are special grants programs likely to continue in the future (for example Roads to Recovery)?
- Are there capital or operating grants available for new services or planned infrastructure?
- What is the long term estimate for Financial Assistance Grants and untied road grants? What is the likely impact if these are planned to reduce?
- If existing grants are withdrawn, how would this impact the local government's service delivery?
- Can the local government meet matching criteria that apply to particular grants?

Contributions and donations

Matters to consider could include:

- Are contributions and donations likely to increase or decrease?
- Are there opportunities to introduce new developer contributions?

Interest revenue

Matters to consider could include:

- How will the local government's investment policy affect likely income from investments?
- Are there likely to be cash flow issues that will positively or negatively impact on investment revenue (for example, an increase in outstanding rates debtors, or a reduction in available cash reserves)?
- What are forecast future interest rates?

Net gain on disposal of assets

The local government's Asset Management Plans should detail assets it plans to sell. Based on past experience of similar disposals, the gains could be estimated.

Other revenue

Matters to consider could include:

- What other revenue sources exist?
- Does the local government have the capacity to undertake private works to increase revenue?
- Can the local government provide services to neighbouring local governments?
- Does the local government have underutilised assets (buildings) that can be leased commercially?
- Are there surplus road making materials that could be sold?

Extraordinary revenue

Consider if there are any one-off extraordinary revenue events that might occur during the life of the Long Term Financial Plan; for example, asset sales or special grants.

7. Expenditure Projections

The local government will need to consider its regular and ongoing expenditure commitments arising from existing services and operations. Asset Management Plans, the Workforce Plan, loan repayments on existing borrowings (and proposed new borrowings) and existing contractual commitments are useful sources of information. New capital projects and additional services included in the Strategic Community Plan will also need to be costed.

Workforce costs

Matters to consider are outlined in Section 9 - Workforce Planning.

Materials and contracts

Matters to consider could include:

- New or proposed changes in service delivery.
- Changes in the cost of materials and contract rates.

Utilities

Matters to consider could include:

- New or proposed buildings, parks, street lighting and the like.
- Impacts of proposed energy and water efficiency programs.

Depreciation

Depreciation costs should be sourced from the local government's Asset Management Plans. Note that depreciation expense could increase considerably after asset revaluation events.

Interest expense

Matters to consider could include:

- The local government's debt policy.
- The local government's debt ratio and debt service ratios – compared to benchmarks.
- Loan repayments on existing borrowings (and proposed new borrowings).
- Proposed draw-down dates.
- Loan terms.
- Forecast future interest rates (WA Treasury Corp).

Insurance

Matters to consider could include:

- Values of new insurable assets to be developed.
- Revaluations of insurable assets.
- Past claims experience that may affect future premiums.
- Any new insurances planned.

Net loss from disposal of assets

The local government's Asset Management Plans should detail assets that are planned to be sold. Based on past experience, an estimate of losses on similar assets disposed could be determined.

Other expenditure

Matters to consider could include:

- Statutory fees including Emergency Services Levies.
- Membership fees or levies.
- Bad debts.
- Donations and subsidies to community groups.

Extraordinary expenditure

Consider if there are any one-off extraordinary expenditure events that might occur during the life of the Long Term Financial Plan; for example, emergency flood repairs to roads and bridges. Consider whether the expenditure will occur over a number of financial years or a single financial year.

8. Asset Management

The Long Term Financial Plan should be developed in tandem with the Asset Management Plans. The financial strategies in the former should be reflected in the latter. The Long Term Financial Plan will be informed by material in the Asset Management Plan. Where data from the Asset Management Plan is brought across to the Long Term Financial Plan, the Long Term Financial Plan should include the relevant assumptions and indications of funding sources. If information on funding sources is not included, this information should be agreed between asset managers and finance managers and reflected in both the Long Term Financial Plan and the Asset Management Plan.

Asset management issues will need to be considered in both the Long Term Financial Plan and the Asset Management Plan, but treated differently in each plan.

The Asset Management Guidelines and other explanatory material can be downloaded from the Integrated Planning and Reporting pages of the Department of Local Government and Communities' website at this link:

<https://www.dlhc.wa.gov.au/Publications/Pages/IPR-Asset-Management-Framework.aspx>

Practitioners should consult the Rate Setting, Asset Management and Financial Sustainability guide downloadable from the following link:

<https://www.dlhc.wa.gov.au/Publications/Pages/IPR-RateSetting-AssetManagement-FinancialSustainability.aspx>

Asset Management Plans should contain a complete record of a local government's infrastructure and other fixed assets and include "whole-of-life" costings that incorporate operating, scheduled maintenance and depreciation costs, renewal costs, replacement costs on asset retirement and costs involved in expanding the asset base. It is important to keep the Long Term Financial Plan updated using this information.

Asset Management Plans provide information on cost/value, depreciation, residual value and useful life that is used in the accounting process for financial reporting.

They also have an essential role in providing information for accurate and effective long term financial planning.

For a local government to be financially sustainable, it needs to be able to maintain the condition of its infrastructure and non-current assets at chosen levels in order to deliver services to the community over the longer term. The consumption of assets should not exceed asset renewal or replacement based on Fair Value. Investment in new assets when existing assets are not being maintained adequately should be avoided.

The Long Term Financial Plan is a critical instrument in weighing up the costs and benefits of different options for ensuring both financial sustainability and responsible asset stewardship. If assets are being efficiently managed, it may be that trade-offs need to be made between service levels and rates increases. If this is the case, the community engagement process should be designed to enable the community to give meaningful input on the options.

9. Workforce Planning

Workforce planning is a continuous process of shaping the workforce to ensure that it is capable of delivering the organisation's objectives now and in the future. It is therefore a strategic process with a focus on longer term workforce requirements of a local government, taking into account Strategic Community Plan priorities.

Workforce planning links with all other elements of the Integrated Planning and Reporting Framework, including long term financial planning and asset management planning. Current and future workforce costs, including associated asset requirements and costs, need to be incorporated into the Long Term Financial Plan.

A cost modelling process could include the following:

- Determine the financial impact of proposed workforce strategies to address workforce / skills gaps
- Ensure that all employment related costs are identified
- Assess the work force plan with historical financial data to determine variables of workforce costs now and into the future
- Test scenarios in the long term financial plan to determine affordability and sustainability
- Include such things as the cost of recruitment vs upskilling or outsourcing in scenarios
- Work closely with managers across the organisation and the finance team.

Workforce planning and arrangements may have implications for a local government's assets and asset management. These may include requirements or changes in regard to housing, equipment, vehicles, office location, office space and fit-out, IT (hard and soft) and plant and tools. Changes in the use of certain assets may be considered.

Employee-related areas with financial implications may include the following:

- Workforce size and location, job characteristics and individual characteristics
- Employment arrangements, including enterprise bargaining agreements, workers' compensation and superannuation
- Government policy and legislative requirements
- Recruitment, retention and retrenchment
- Training and development.

Associated costs, including wider asset management considerations such as asset condition, depreciation and maintenance, need to be identified and included in the Long Term Financial Plan. The Workforce Plan requirements and costs should also be included in the Asset Management Plan and Corporate Business Plan.

It should be recognised that there can be financial linkages from "informing plans" that impact on the Workforce Plan, which in turn is reflected in the Long Term Financial Plan. Informing Plans could include:

- Equal Employment Opportunities Plan
- Disability Access and Inclusion Plan (Outcome 7)
- Reconciliation Action Plan
- Information and Communications Technology Plan
- Service specific plans
- Others

For example, there may be commitments in the Disability Access and Inclusion Plan that relate to the workforce. These are part of workforce solutions, so such commitments and associated costs should also be reflected in the Workforce Plan. Similarly, expenditure on computers and software may be linked to employee head count in the Information and Communications Technology Plan, so the link needs to be acknowledged in the Workforce Plan.

Further assistance is available by downloading the Workforce Planning Toolkit from the Integrated Planning and Reporting pages of the Department of Local Government and Communities' website:

<https://www.dlqc.wa.gov.au/Publications/Pages/IPR-Workforce-Planning-Toolkit.aspx>

10. Performance Measures

Local governments should develop key performance indicators (KPIs) to measure performance against the Long Term Financial Plan and Annual Budget and to assess their long term financial sustainability.

KPIs included in the Long Term Financial Plan provide performance measures against which a local government can report its progress to the community.

A number of statutory KPIs focusing on financial and asset management performance will be regulated. Other financial sustainability measures can also be developed by individual local governments, however, these need to be simple, measurable and understandable.

The Department of Local Government and Communities and Western Australian Treasury Corporation have partnered to release long term financial planning tools for local governments. The tools include the Financial Health Indicator calculator, which enables a local government to project changes to its financial position over the course of the long term financial plan. Local governments can use this to calculate projections of their financial health using the Financial Health Indicator methodology.

If any KPIs are impacted by the particular circumstances of the local government, or abnormal events, supporting commentary should be included in the Long Term Financial Plan.

Practitioners can consult Local Government Operational Guideline Number 18 - June 2013 "Financial Ratios" for further guidance in this area, downloadable from here:

<https://www.dlgc.wa.gov.au/Publications/Pages/LG-Operational-Guidelines-18.aspx>

Table 1 outlines the statutory KPIs local governments are required to report on.

Table 1: Statutory KPIs required to be reported by local governments

Ratio	What It Measures	Achieving Standard
1. Operating Surplus Ratio	An indicator of the extent to which revenue raised not only covers operational expenses, but also provides for capital funding.	Ratio is between 0% and 15%.
2. Current Ratio	A measure of a local government's liquidity and its ability to meet its short term financial obligations from unrestricted current assets.	Ratio is equal to an expression of 1:1 or greater (e.g. 100% or 1.0).
3. Debt Service Cover Ratio	An indicator of a local government's ability to generate sufficient cash to cover its debt payments.	Ratio is greater than or equal to 2.
4. Own Source Revenue Coverage Ratio	An indicator of a local government's ability to cover its costs through its own revenue efforts.	Ratio is between 40% and 90% (or 0.4 and 0.9).
5. Asset Consumption Ratio	This ratio highlights the aged condition of a local government's physical assets.	Ratio data can be identified and ratio is 50% or greater.
6. Asset Sustainability Ratio	An indicator of the extent to which assets managed by a local government are being renewed or replaced as they reach the end of their useful lives.	Ratio data can be calculated and ratio is 90%.
7. Asset Renewal Funding Ratio	Indicates whether the local government has the financial capacity to fund asset renewal at existing revenue and service levels.	Ratio data can be identified and the ratio is between 75% and 95%.

11. Scenario Modelling and Sensitivity Analysis

The Long Term Financial Plan can be used as a proving ground and stress test for financial strategies that may ultimately be used by the local government.

Scenario modelling will determine the level of flexibility in the Long Term Financial Plan to inform the local government of the best strategy to meet community expectations should variations occur in a range of factors or assumptions.

Modelling should be undertaken on the basis of optimistic, conservative and worst-case scenarios to understand the impacts of variation.

This modelling could, for example, focus on population growth, where different models can be compared for rapid, moderate, or minimal growth scenarios.

Sensitivity analysis can be used to test the financial impacts of variations in the factors or assumptions underlying the plan.

Analysing the sensitivity of the Long Term Financial Plan to variations in assumptions such as Consumer Price Index estimates, employee cost increments, interest rates, annual rate increases, recurrent grants, and others, will identify the assumptions that have the greatest impact when varied.

This will assist a local government to ensure that the assumptions on which its Long Term Financial Plan is based are reasonable.

For an understanding of how to use the Long Term Financial Plan for scenario modelling and sensitivity analysis, see how it is handled in the hypothetical Town of Eagle Bay on page 11 of the Model Long Term Financial Plan, available here:

<https://www.dlgc.wa.gov.au/Publications/Pages/IPR-Model-Long-Term-Financial-Planning.aspx>

12. Format of Long Term Financial Plan

The following is a model format for a Long Term Financial Plan. The format is not mandatory. As a minimum, the Long Term Financial Plan should include 10-year financial forecasts consisting of:

- Forecast income statement
- Statement of cash flows
- Rate setting statement
- Statement of financial position
- Equity statement.

These statements must be supported by:

- Details of assumptions on which the plan has been developed
- Projected income and expenditure
- Methods of measuring performance - Key Performance Indicators (KPIs)
- Sensitivity analysis and financial modelling scenarios
- Major capital works schedules
- Risk assessments of the impact of uncertainty on the Long Term Financial Plan, especially out-years
- Cash reserves and borrowings.

The Long Term Financial Plan should be updated annually and form the basis for the preparation of the following year's Annual Budget.

Model format of Long Term Financial Plan

1. Introduction

- Key points of the plan
- Where it fits into IPR

2. Context

- A brief recap of the local government area, its size and location within the State, demographics, industries (consistent with community and economic profile in the Strategic Community Plan)
- Local government assets and services

3. Strategic Alignment

- Significant points of linkage to the Strategic Community Plan, Corporate Business Plan, Asset Management Plans, Workforce Plan and other informing strategies, and Annual Budget (eg any change of focus on specific services reflected in the LTFP)
4. Assumptions
 - Assumptions underpinning the plan including financial policies and strategies
 5. Financial Commentary
 - Comment on the asset and financial ratios over the life of the Plan
 - Summarise the financial strategies for rating structure, fees and charges, alternative revenue sources, pursuit of grants, reserves, debt funding, asset disposal, investment policy
 - Comment on each of the financial statements
 - Comment on the supporting schedules including operating revenue, operating expenditure and capital works schedules
 6. Risk Management
 7. Scenario Modelling and Sensitivity Analysis
 8. Financial statements (forecasts)
 - Forecast income statement
 - Statement of cash flows
 - Rate setting statement
 - Statement of financial position
 - Equity statement
 9. Supporting schedules
 - Schedule of new / capital works proposed
 - Schedule of assumptions underpinning financial forecasts
 - Schedule of income / expenditure estimates and assumptions used (e.g. CPI %)
 - Schedule of borrowings and payments
 - Schedule of reserve movements and balances
 - Schedule of asset and financial ratios and any other key performance indicators (KPIs)
 - Schedules and comments on scenario modelling and sensitivity analysis

An example Long Term Financial Plan is available on the Integrated Planning and Reporting pages of the Department of Local Government and Communities' website:

<https://www.dlgc.wa.gov.au/Publications/Pages/IPR-Model-Long-Term-Financial-Planning.aspx>

13. Review

To retain alignment with the Corporate Business Plan, the Long Term Financial Plan needs to be a rolling and iterative document that is subject to annual review. More substantial reviews occur in conjunction with the two-yearly Strategic Reviews, alternating between the Minor Strategic Review and the Major Strategic Review.

14. Glossary of Terms

Terms that have been assigned a specific meaning within these Guidelines are defined below. These definitions aim to best describe an Integrated Planning and Reporting component or process in terms of its purpose, without restricting or mandating terminology.

Table 2: Glossary of Terms

Term	Definition
Annual Budget	A statutory requirement outlining the financial estimates for that year's delivery of the Corporate Business Plan.
Asset Management Plan	A "whole of life" plan for the appropriate acquisition, maintenance, renewal, replacement and disposal of assets that balances aspirations with affordability.
Corporate Business Plan	Four-year delivery program, aligned to the Strategic Community Plan, and accompanied by four-year financial projections.
Equity statement	Equity is the net worth of a local government measured as the difference between the total assets and total liabilities as reported in the statement of financial position. The equity statement details equity by its various classes (retained surpluses, cash-backed reserves and revaluation reserves) and reconciles the opening and closing balances of each class of the local government's equity over the reporting period. It also provides a summary of changes in composition of the local government's equity and the causes of those changes.

Term	Definition
Financial capital	Refers to the funding capacity of the local government as disclosed in the statement of financial position. This is usually the net difference between current assets and current liabilities.
Forecast income statement	A statement that includes revenue and expenditure projections over the 10-year life of the plan.
Infrastructure	Infrastructure assets are physical assets intended to serve the community over a long time frame and maintained indefinitely by the continuing replacement and refurbishment of its components so that service level standards are met. This includes the major asset classes such as roads, drains, bridges, footpaths, sewerage assets and public buildings.
Inter-generational equity	Achieving a fair and ethical balance of costs and benefits between present and future generations. In the local government context this refers to the expenditure on long-lived assets and infrastructure and the revenue strategies required to pay for them.
Integrated Planning and Reporting	Integrated Planning and Reporting (IPR) is a process designed to: <ul style="list-style-type: none"> ▪ Articulate the community's vision, outcomes and priorities ▪ Allocate resources to achieve the vision, striking a considered balance between aspirations and affordability ▪ Monitor and report progress
Rate setting statement	A statement that details budgeted expenditure and revenue and shows how much rate revenue is required to cover the budget deficit. It can be in a format that includes rates as an income type based on assumptions used in developing the Long Term Financial Plan to show the extent to which planned services and assets can be funded.
Scenario modelling	Preparation of forecasts or estimates in the Long Term Financial Plan on optimistic, conservative and

Term	Definition
	worst-case scenarios to understand the impact of variations in factors or assumptions.
Sensitivity analysis	Determines those factors or assumptions that if varied have greater impacts on the Long Term Financial Plan.
Statement of cash flows	A statement that shows how changes in a local government's expenses and income affect cash and cash equivalents; and breaks the analysis down to operating, investing and financing activities.
Statement of financial position	A statement that reports the value of a local government's current and non-current assets, current and non-current liabilities and equity as at a particular date, usually the end of a financial reporting period.
Strategic Community Plan	The Strategic Community Plan is the Council's principal 10-year strategy and planning document. It is the guiding document for the remainder of the IPR suite. Community engagement to determine their vision and priorities is central to the Plan.
Workforce Planning	A continuous process (not a one-off activity) of shaping the workforce to ensure that it is capable of delivering organisational objectives now and in the future.

15. References

These Guidelines have been informed by and produced with reference to the following:

- IPWEA Practice Note 6 Long Term Financial Planning, 2012
- NSW Department of Premier and Cabinet, Division of Local Government: Integrated Planning and Reporting Long Term Financial Plan, December 2010
- QLD Department of Infrastructure and Planning: Financial management (sustainability) guideline 2009
- QLD Department of Infrastructure and Planning: A guide to asset accounting in Local Governments, 2010
- WA Department of Local Government: Integrated Planning and Reporting Framework and Guidelines, 2016
- Workforce Planning: The Essentials. A toolkit for Western Australian local governments.

16. Contacts

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