

Australian Infrastructure Financial Management Guidelines

POSITION PAPER 8

Long Term Financial Planning

TOC Sections 6.

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1. SCOPE

This position paper explores the issues relating to long term financial planning for entities holding infrastructure assets.

There is no national, consistent regulation or guide relating to long term financial planning for entities providing services from infrastructure assets, especially long lived (> 10 years) assets to assist these entities in managing service delivery from infrastructure assets.

2. ISSUES

Several inquiries into the financial sustainability of local governments have highlighted the need for local governments to move from an annual to a medium-long term service and financial planning period.

The SA Local Government Act 1999 (as amended) required SA councils to develop a long term financial plan of a period of at least 10 years and an infrastructure and asset management plan for a period of at least 10 years.

The NSW Local Government Inquiry's Infrastructure Report introduced the need to include infrastructure effects in long term financial plans. Infrastructure effects were defined as infrastructure renewal, provision for growth of networks and life cycle costs for new services/assets.

Quality long term financial plans supported by sound asset management plans documenting services to be provided, how the services are to be provided and the funds required to provide the services will assist entities providing services from infrastructure to sustain service delivery to their communities/customers.

The quality of long term financial plan outputs is highly dependent on the reliability and accuracy of data inputs in long term financial plans. A national approach to documentation of input data quality will assist in highlighting limitations of the plan outputs and encourage improvements in data and planning methodologies.

3. REQUIREMENTS FOR LONG TERM FINANCIAL PLANNING

Long term financial planning is not provided for within Australian Accounting Standards.

4. LEGISLATIVE FRAMEWORK

South Australia has legislation requiring long term financial planning. Sec 122 (1) of the Local Government Act 1999, (as amended) requires council's Strategic Management Plan to:

- “(f) set out a long term financial plan for a period of at least 10 years; and
- (fa) set out an infrastructure and asset management plan, relating to the management and development of infrastructure and major assets by the council, for a period of at least 10 years.”¹

5. GUIDANCE FROM LOCAL GOVERNMENT OFFICES AND OTHER GOVERNMENT ENTITIES

5.1 Local Government Association of South Australia

The LGA's *A Framework for Local Government Financial Management* includes guidelines for long term financial planning.

“Long-term Financial Planning

Long-term financial planning is not a restraint or an imposition. The essence of planning is to allow flexibility. No plan is set in concrete - it is a guideline for future action. And the longer the planning horizon, the more the plan is a guideline. Long-term financial plans are not created to be slavishly followed, but to allow for thinking to occur about the nature of Council revenues and expenditures. From this thinking comes a deeper knowledge and understanding of the needs of the community and the Council. The depth of knowledge and understanding contributes to the ability to 'roll with the punches' when change occurs and plans need to be revised to cope with the unexpected.

Long-term financial planning is an iterative process - it occurs on a regular basis and experience suggests that it will take many attempts to 'get it right'. As new information is included in the planning process – from the latest advice on interest rates to information from the community on expected service standards – the plans are discussed, reviewed and fine-tuned.

The long-term financial plan draws together the various elements of objectives, strategy and outcomes from the Council's strategic plans and translates them into dollar amounts and performance measures that are capable of being monitored continuously.

There are four specific issues that must be considered to ensure that the long-term financial planning process is effective. They are:

1. *Planning Assumptions: There will be a number of assumptions that will be made in developing a long-term financial plan. They include assumptions relating to:*
 - *Federal, State and local economic forecasts;*
 - *Inflation forecasts;*
 - *Interest rate movements;*
 - *The demographic base of the community, including the potential for growth/decline;*
 - *The growth/decline in individual, business and farm incomes; and*
 - *The growth/decline in the demand for services.*

¹ Local Government Act, 1999 as amended

2. *The Revenue Forecast: In considering the likely revenue that will be available to meet the demand for services the long-term financial plan needs to cover:*
- *Capacity to Tax: A major component of a Council's revenue base is the taxation it raises from its community through rates. It is essential that the planning process includes an assessment of the community's capacity to pay rates and whether there is the potential for changes in the capacity of elements of the community to pay rates. In making such judgements a Council needs to review information relating to:*
 - *Separate or specific rates and charges.*
 - *The potential to reduce the reliance on taxation through increasing revenues from other sources – e.g. fees and charges.*
 - *Growth/decline in taxation revenues from changing demographic and industry makeup.*
 - *The potential to increase the reliance on taxation due to the reduction of revenues from other sources – e.g. a decline in grants and subsidies from other spheres of government.*
 - *Possible changes in the total tax burden from State or Commonwealth government initiatives; and*
 - *The Council's current rating policy and likely changes to that policy over the relevant timeframe.*
 - *User Pays (Fees and Charges – Separate Rates): Many of the services provided by Councils are provided to specific individuals rather than the community as a whole. This is recognised in the Local Government Act 1999 which permits Councils to raise separate rates and service rates and charges for specific projects or services and allows the Council to set a range of fees and charges for other services provided e.g. water supply, waste management, recreation services. The charging of fees (including concession arrangements) for some of the services provided by Councils has two major benefits – it reduces the need to rely on general tax revenue and it provides equity in that only those who use such services pay for them.*
 - *Grants and Subsidies: Councils receive general purpose financial assistance grants from the Commonwealth Government, through the Local Government Grants Commission. They also receive other grants and subsidies, generally tied to specific projects or services, from both the State and Commonwealth governments. Like every revenue and expenditure element of the long-term financial plans, such grants and subsidies are uncertain in their nature. Council need to consider carefully in their long-term financial plans the potential effect of such grants and subsidies being reduced or withdrawn and whether Council has the capacity to replace the revenue stream, or the ability to continue to provide the same level of services if such funds are reduced or withdrawn.*
 - *Borrowings: It is a characteristic of governments that some of the expenditures they incur are financed from borrowings. Generally, these are expenditures on major projects, which have long lives and need to be paid for by the residents who consume the services provided by the infrastructure. Using borrowings to pay for such expenditures allows the cost of providing the services to be spread over a number of years. Although it is extremely unlikely (and, indeed, fiscally irresponsible except in the most extreme circumstances) that borrowings will be used to fund recurrent expenditure, borrowings may also be used to smooth out long-term expenditure peaks and troughs and the longer term nature of strategic financial planning can identify such peaks and troughs more readily. (Refer to the topic 'Treasury Operations' for further information relating to borrowings.)*
 - *Cash Reserves: An alternative to borrowing, in the case of expenditure peaks and troughs, is to build up cash reserves in years when expenditures are lower and to use the cash reserves in years when higher expenditures are incurred. An inherent danger in cash reserves is that they can readily be diverted to other uses than those originally*

intended, leaving the Council with the alternative of raising funds from other sources (tax or borrowings) or cutting planned expenditures. Cash reserves need to be carefully managed to both achieve optimum investment incomes and to be available when needed for the planned expenditures. Additionally, cash reserves and borrowings need to be monitored carefully to ensure an optimal net interest impact. (Refer to the topic 'Treasury Operations' for further information relating to cash reserves.)

3. *The Expenditure Forecast* What amount of money does the Council require to pay for the services it is planning to provide to its community? This is the fundamental question that needs to be answered in attempting to forecast the future revenue needs of the Council. At the same time, the capacity of the community to pay tax and the uncertainty of other revenue sources are a limiting factor on the services that the Council can provide to its community. A characteristic of any budgeting or long-term financial planning process is the inherent uncertainty of future revenues and expenditures and the relationship between revenues and expenditures. The expenditure forecast is likely to undergo significant change during the planning process. In developing the expenditure forecast Councils need to consider:
 - *On-going Commitments*: It is the nature of Council expenditures that many of them are regular and on-going, even in the long-term. The human resource plan and the asset management plan are key sources of information about such expenditures, along with the repayment schedule for long-term borrowings. To some extent, the on-going commitments are the core of a Council's long-term financial plan. However, it is essential that such commitments are carefully reviewed to ensure that they are indeed continuing commitments and that if the commitment ceases - e.g. transfer of an asset, long-term borrowing repaid – or the commitment is variable, then the expenditure forecast is adjusted.
 - *New Expenditure Items*: There will always be bids for new expenditures. The key to dealing with these bids is to ensure that consideration is given only to those items which meet the following criteria:
 - They meet a clearly defined policy direction of the Council and are reflected in the goals and objectives of the Council as expressed in the strategic management plan(s); and
 - They are complete – that is, they include information in relation to recurrent and capital expenditures, and the impact of their implementation on future budgets is clearly identified – e.g. a bid for an additional staff member includes salary, salary on-costs, travel, training, support service, office space and other costs or a new piece of plant includes the purchase cost and the operating costs, including any wages costs for its operation.
4. *Sensitivity Analysis*: Long-term financial plans are inherently uncertain. They contain a wide range of assumptions, including assumptions about interest rates and the potential effect of inflation on revenues and expenditures. Some of the assumptions have little consequence if they are wrong. Others can have a major impact on future financial plans – e.g. the cessation of financial assistance grants from the Commonwealth Government. It is essential that:
 - All assumptions in the long-term financial plan are documented;
 - Those which will have moderate to significant impacts are identified; and
 - The plans are tested by varying the parameters of moderate to significant assumptions (e.g. changing interest and inflation rates, reducing or eliminating grants and subsidies, increasing taxation rates).

The long-term financial management plan should contain:

- A list of all the assumptions that have been used in developing the plan;
- A statement of expected revenues and their source, over the relevant time frame;
- A statement of expected expenditures, based on the current strategic management plans;
- The service standards that underlie the expenditure plans;
- The performance measures to be used to monitor achievement of the plans;
- Links and references to strategic and other management plans;
- Details of the sensitivity analysis performed, which highlight the factors or assumptions most likely to affect the long-term financial performance; and
- Draft budgets for the relevant time frame – these could be in the form of different scenarios, e.g. most likely, optimistic, conservative.”²

6. OTHER SOURCES

6.1 South Australia Financial Sustainability Review Board

The Report of the SA Financial Sustainability Review Board discussed financial governance policies and practices.

“Fundamentally, there is a need to address shortcomings in the financial governance policies and practices evident throughout much of the local government sector. In many councils:

- A cash accounting mindset still prevails;
- The planning horizon remains predominantly short term, with the setting of appropriate long-term financial goals and targets in its infancy and budgetary frameworks, and associate internal reporting and monitoring, not having the requisite medium to longer-term focus.”³

The Report recommended the adoption of a standard definition of ‘financial sustainability’ based on the following definition:

“A council’s long-term financial performance and position is sustainable where:
(i) continuation of the council’s present spending and funding policies;
(ii) likely developments in the council’s revenue raising-capacity and the demand for and costs of its services and infrastructure; and
(iii) normal financial risks and financial shocks
altogether are unlikely to necessitate substantial increases in council rates (or alternatively, disruptive service cuts).”⁴

Recommendation 1.2 (2) proposed the addition of an object to the objects of the Local Government Act, 1999 (as section 3)

*“to promote the achievement and maintenance of the sustainability of council’s long-term financial performance and position”.*⁵

Recommendation 14.1 (2) proposed amending the Local Government Act 1999 to include in the sections stating the principal roles of councils and of members of councils, the roles of:

- “(i) ensuring that the council’s revenue, expenses, asset, liabilities, investments and general financial dealings are managed prudently in a manner that promotes the current and future interest of the community; and

² LGA SA, 2003, pp 4 - 8

³ SA Financial Sustainability Review Board, 2005, p 6

⁴ op cit, Recommendation 1.1 (1), p 15

⁵ ibid

- (ii) *in the council's strategic management plans and in its annual business plan and budget, adequately and effectively providing for the meeting of the expenditure needs of the council identified in those plans and budgets in a way that ensures that the sustainability of the council's long term performance and position.*⁶

6.2 NSW Local Government Inquiry

Recommendation 34 of the LGI Report was that:

"All councils develop and adopt a long term strategic and financial plan in close consultation with their communities that would be subject to annual external compliance audits and updated in the first year of each council's term (See 10.2.4)

*This would be akin to the New Zealand Community Plan, 10 year community strategic and financial plan that would subsume existing services, infrastructure, social, cultural, environmental, land use, stormwater, economic and other plans.*⁷

The Inquiry commissioned a report on local government infrastructure. The report discussed long term financial plans.

*"the lack of plans to manage service delivery from infrastructure places Councils at risk of not being able to sustain service delivery in the medium term. If Councils do not manage the funding gap, they will be faced with decreasing service levels and/or increasing funding needs in the future. It is critical that Councils have a 10 year financial plan supported by 20 year asset management plans to ensure sustainable service delivery to their communities.*⁸

The infrastructure report found that just under 50% of councils responding to the survey have a financial plan covering a period of at least 10 years.⁹ For those councils with financial plans, only 21% include infrastructure effects, where these are:

- *"infrastructure renewal,*
- *growth of networks, and*
- *life cycle costs for new services/assets"*¹⁰

6.3 Western Australia Systemic Sustainability Study

The terms of reference for the WA Systemic Sustainability Study asked for recommendations regarding potential changes to the Local Government Act of 1995. Potential changes reported or observed by the consultants included:

*"Establish Asset Management Plans and Long Term Community Financial Plans along with requiring the establishment of reserves to fund the replacement of infrastructure."*¹¹

6.4 Government Finance Officers Association – US and Canada

The GFOA promotes the use of long term financial planning.

"Governments often undertake a variety of different planning processes, including strategic, operations, capital improvement, facilities, economic development, land use, and technology planning. How do these planning streams relate to the budget? The Long Term Financial Plan

⁶ op cit, p 21

⁷ LGI, 2006, p 31

⁸ JRA, 2005, IPWEA Road Asset Benchmarking Report quoted in JRA & IPWEA, 2006, p 29

⁹ JRA, 2006, Fig 11.2, p 33

¹⁰ op cit, Fig 11.3, p 34

¹¹ WALGA, 2006, p 44

(LTFP) can serve as a unifying tool to integrate different planning streams. Other long-term plans may exclude a financial perspective, foregoing an opportunity to coordinate short-term actions that impact the long-term fiscal condition of the government. The LTFP serves as an important decision-support mechanism for all types of government planning and action.

A long-term financial plan ... includes the following elements:

- *A long-term (typically 5-year) projection of revenues and expenditures.*
- *Recommended financial policies to structure decision-making and ensure long-term viability.*
- *An analysis of debt position in relation to long-term financial position.*
- *A process for integrating the LTFP with other strategic plans to leverage the synergies available at the organization level.*
- *Tactics to meet short term gaps between expenditures and revenues, and strategies to address long-term structural deficits between resources and service commitments.*
- *The know-how needed to foster knowledge transfer and perpetuate the long-term financial planning process independent of consultant support. Other components that may be relevant to jurisdiction-specific circumstances such as benchmarking, econometric analysis, or a strategic planning element.”¹²*

6.5 City of Tea Tree Gully, SA

The City of Tea Tree Gully describes its long term financial plan.

“The City of Tea Tree Gully has had a long term financial plan for a number of years. This is considered good financial management. The long term financial plan used to be for a duration of five years until last year (2005/2006) when a long term financial plan of ten years was adopted.

Section 122 of the Local Government (Financial Management and Rating) Amendment Bill 2005 - (1a) (a) states

“A council must, in conjunction with the plans required under subsection (1), develop and adopt-
(a) a long term financial plan for a period of at least 10 year”

The Long Term Financial Plan is based on the assumption of current service levels being maintained over the ten year period. It also takes into account any new initiatives/services/compliance requirements that were known at the time of formulating the Long Term Financial Plan, eg growth in rates revenue; compliance with cat control requirements; increased commitments to Youth and the Aged. These assumptions have been extrapolated out over the ten years at today’s dollars.

The Long Term Financial Plan is reviewed each year to take into account any new initiatives/services/compliance requirements that have been required since the adoption of the previous year’s Long Term Financial Plan. Year 1 of the Long Term Financial Pan forms the basis of the Annual Budget of that given year. It is in the Annual Budget formulation process that refinement of the assumptions occurs, provided that Financial Sustainability Principles are considered and taken into account.

During the 2005/2006 budget process, Council put out to public consultation six Financial Sustainability Principles which it then adopted as Guiding Financial Sustainability Principles for a period of twelve months. These six principles have been used in formulating the 2006/2007 Long Term Financial Plan. The financial sustainability principles are included in Appendix 1. They are:

¹² GFOA, 2006, <http://www.gfoa.org/rcc/services-fas.shtml>

1. *Balanced Budget*
2. *Funded Depreciation*
3. *Debt Limitations*
4. *Review of Assets*
5. *Staff Limitations*
6. *Council Rate Limitations*¹³

6.6 International Infrastructure Management Manual

The IIMM recommends 'core' asset management plans develop long-term (10-20 year) cashflow predictions for asset maintenance, rehabilitation and replacement, based on local knowledge of assets and options for meeting current levels of service.¹⁴

Minimum compliance criteria to meet the NZ Local Government Act 2002, set by the NZ Auditor General require at least a 10 year planning period for demand forecasts and financial forecasts.¹⁵

The IIMM gives examples of 20 year planning periods used by Watercare Services Ltd, NZ,¹⁶ North Shore City Council NZ,¹⁷ ¹⁸ Greater Wellington Water NZ,¹⁹ and Metrowater NZ (40 years)²⁰.

6.7 New Zealand Local Government Act

The New Zealand Local Government Act 2002 requires local authorities to:

- Ensure that each year's projected operating revenue are set at a level to meet the years projected operating expenses (Sec 100 (1)).
- Manage its revenues, expenses, asset, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interest of the community (Sec 101 (1)).
- Make adequate and effective provision in its long-term council community plan and in its annual plan ... to meet the expenditure needs of the local authority identified in that long-term council community plan and annual plan (Sec 101 (2)).
- Adopt a revenue and financing policy (Sec 101 (4)(a)).

The revenue and financing policy must state the local authority's policies in respect to the funding of operating and capital expenditure from the following sources:

- General rates.
- Targeted rates.
- Lump sum contributions.
- Fees and charges.
- Interests and dividends from investments, borrowing.
- Proceeds from asset sales.
- Development contributions, financial contributions under the Resource Management Act 1991.
- Grants and subsidies.
- Any other source (Sec 103 (1-2))

¹³ City of Tea Tree Gully, 2006, p 1

¹⁴ IPWEA, 2006, Sec 2.2.4, p 2.8

¹⁵ op cit, Sec 2.2.4, pp 2.11-12

¹⁶ op cit, Sec 2.3, Case Study, p 2.19

¹⁷ op cit, Sec 3.2 p 3.30,

¹⁸ op cit, Case Study, Sec 3.7, p3.134

¹⁹ op cit, Case Study, p 3.33

²⁰ op cit, Case Study, Sec 3.7, p 1.35-6

6.8 Franklin District Council (NZ)

The Revenue and Financing Policy of Franklin District Council classifies funding for capital expenditure into three expenditure classifications.

- “Growth – that part of the expenditure that can be attributed to be caused by growth. Non-subsidised expenditure to be fully funded from activity generated financial/development contributions
- Renewals – that part of the expenditure than can be attributed to the renewal of existing assets to the current level of service capacity. Non-subsidised expenditure to be fully funded from the activity’s capital reserve established through the funding of depreciation. Where, due to timing differences, renewals costs exceed depreciation funding any interest accrued will be repaid from future depreciation received. However deficit reserve funding is not considered desirable and Council will take action to ensure any deficits in these reserves are repaid by additional funding should this be required.
- Level of Service (LOS) – That art of expenditure that can be attributed to extending an asset current level of service. Non-subsidised expenditure is funded by way of loan to achieve the alignment of the costs against the benefits derived by present and future users of the enhanced service level.”²¹

7. DISCUSSION

The NSW Local Government Inquiry’s Infrastructure Report reported on the inclusion of ‘infrastructure effects’ in long term financial plans. Infrastructure effects were defined as provision for:

- Infrastructure renewal;
- Growth of networks
- Life cycle costs for new services/assets.

The question can be asked as to what provisions for infrastructure renewal are to be included. Should these be based on the average asset consumption (depreciation) or on required asset renewal to meet agreed service levels?

Position Paper 1 argued the need to separate asset consumption from asset renewal and discussed advantages and disadvantages of three options.

- Renewal projections based on depreciation expense – this does not take into account estimated renewal costs nor renewal timing. It overstates the amount of renewal needed in early years and encourages unnecessary renewal spending. It understates the amount of renewal needed in later years and fails to indicate the funding levels required to ensure service levels remain functional.
- Renewal projections based on existing asset register data – this method gives an indication of future renewal cashflows and timing of expenditures based on age and useful life estimates held in the asset register. Its accuracy is affected by the currency of asset values held in the asset register. It does not take into account the estimated renewal cost of individual (or groups of) assets nor the actual remaining life of the assets.
- Renewal projections based on estimated asset renewal costs for individual or group of assets and timing of expenditure – this method gives the most accurate estimate of funding required to ensure service levels remain functional.²²

²¹ Franklin District Council Community Plan 2006 – 2016, p 3

²² IPWEA NAMS.AU, 2006, Position Paper 1, Asset Consumption and Asset Renewal, p 12

Position Paper 1 recommended that

1. "Asset renewal future funding requirements are to be based on services and level of services required to be provided to the community in the future. Cashflow projections for providing agreed levels of service to the community are to be documented in asset management plans and used as input for long term financial plans.
2. Asset renewal cashflow projections are to be based on estimated cost of renewal and estimated remaining life for individual or groups of assets."²³

A long term financial plan can assist councils and other service providing entities in achieving sustainability in service provision.

A service providing entity should be able to prove that every decision taken by it is taken in terms of the 10 year consequences for service quality, function and safety, where:

- a. Service quality and function - services, agreed service levels, how services are to be provided and the consequences of service decisions are documented in an asset management plan subject to annual revision with budget determinations.
- b. Safety - risks associated with providing service from infrastructure are identified, analysed and evaluated, risk treatments and risk treatments plans are documented in an infrastructure risk management plan and included in council's maintenance and capital works programs, subject to an annual review to allow for new risks and changes to existing risks, and
- c. Funds required to provide agreed service levels and manage risks are identified and fully funded in a long term financial plan (10 years).

Holistic treasury management practices can assist in achieving financial sustainability. Holistic treasury management practices takes a whole of entity view of the entity's financial resources and future liabilities including asset renewals to achieve the entity's strategic objectives.

Holistic treasury management practices include:

- Funding of all (inc non-cash) expenses.
- Planning of financial flows and liquidity.
- Management of funds, and
- Management of risks, assets and investments.

Holistic treasury practices provide a more efficient use of available financial resources rather than use of cash reserves for future liabilities.

Aligning funding with capital expenditure categories such as

1. Asset renewals are funded from equity reserves created by depreciation expense.
2. New assets to support population growth are funded from developers contributions.
3. Assets created to provide increased levels of service are funded by loans.

may assist in achieving financial sustainability.

8. SUMMARY

There is an increasing trend for councils to move from annual budgeting to long term financial planning and holistic treasury management practices rather than cash reserves for future liabilities. A holistic approach to treasury management takes a whole of entity view of the entity's financial resources and future liabilities including asset renewals to achieve the entity's strategic objectives.

²³ op cit, p 13

Long term financial plans supported by asset management plans are recommendations from the SA, NSW and WA financial sustainability studies.

The SA Local Government Act requires SA councils to have a long term financial plan for a period of at least 10 years and an infrastructure and asset management plan for a period of at least 10 years.

The IIMM recommends a planning period of at least 10 years and gives several examples of organisations using a 20 year forecast period for asset management plans.

Asset management plans covering a 20 year planning period will identify service delivery and renewal expenditures in advance of a 10 year financial planning period especially for large expenditure items and provide additional time to consider and take appropriate action to review service needs, service levels and alternate methods of service delivery.

The NSW Local Government Inquiry's Infrastructure Report raised the issue of the inclusion of 'infrastructure effects' in long term financial plans. The report defined infrastructure affects as:

- Infrastructure renewal;
- Growth of networks
- Life cycle costs for new services/assets.

Position Paper 1 of this series recommended that infrastructure renewal projections be based on services and level of services required to be provided to the community in the future and estimated cost of renewal and estimated remaining life for individual or groups of assets.

A long term financial plan is based on many assumptions; variations in these assumptions can have a considerable effect on the outputs of the long term financial plan and decisions made using this information. The LGASA's Framework for Local Government Financial Management details information that should be included in long term financial management plans being:

- *A list of all the assumptions that have been used in developing the plan;*
- *A statement of expected revenues and their source, over the relevant time frame;*
- *A statement of expected expenditures, based on the current strategic management plans;*
- *The service standards that underlie the expenditure plans;*
- *The performance measures to be used to monitor achievement of the plans;*
- *Links and references to strategic and other management plans;*
- *Details of the sensitivity analysis performed, which highlight the factors or assumptions most likely to affect the long-term financial performance; and*
- *Draft budgets for the relevant time frame – these could be in the form of different scenarios, e.g. most likely, optimistic, conservative;*

This information on which the long term financial plans are based will assist decision and policy makers in considering the outputs of long term financial plans and improve the quality of resource allocation and policy decisions.

9. RECOMMENDED POSITION

1. Councils' strategic management processes include a long term financial plan covering at least 10 years.
2. The long term financial plan be supported by an asset management plan covering a period of 20 years.
3. Asset management plans and long term financial plans include provision for infrastructure effects for:

- projected infrastructure renewal based on estimated cost of renewal and estimated remaining life for individual assets or groups of assets, not depreciation,
 - growth of networks, and
 - life cycle costs for new services/assets.
4. The long-term financial plan should contain:
- A list of all the assumptions that have been used in developing the plan;
 - A statement of required and expected revenues and their source, over the relevant time frame;
 - A statement of required and expected expenditures, based on the current strategic management plans;
 - The service standards that underlie the expenditure plans;
 - The performance measures to be used to monitor achievement of the plans;
 - Links and references to strategic and other management plans;
 - Details of the sensitivity analysis performed, which highlight the factors or assumptions most likely to affect the long-term financial performance; and
 - Draft budgets for the relevant time frame – these could be in the form of different scenarios, e.g. most likely, optimistic, conservative

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Note for footnotes; *ibid* – in the same place, *op cit* already cited.


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