



# LONG-TERM FINANCIAL PLANNING

Practice Note 6  
LTFP

## Practice Note No.6 – Long-term Financial Planning (February 2012)

Prepared by the Institute for Public Works Engineering Australia (IPWEA), a partner of the Australian Centre of Excellence for Local Government (ACELG), with funding from the Commonwealth Government's Local Government Reform Fund.

### Overview:

Several inquiries into local government have highlighted the need for improved financial planning as an essential step towards ensuring that councils remain sustainable and capable of delivering adequate local services. At the same time, most state governments now require some form of medium-long term financial plan. The practice note provides a generic framework for meeting this challenge. It has already been road-tested as part of the LGRF rollout in NSW.

The Long-term Financial Planning Practice Note has been prepared to assist practitioners, particularly those in organisations with responsibility for service delivery that involves management of assets with long but finite lives, to prepare a long-term financial plan. Such a plan is likely to be needed to ensure equitable and cost-effective decisions regarding timing and delivery of desired and affordable services and financial and service level sustainability – that is, how to manage likely developments or unexpected financial shocks without introducing significant or socially destabilising revenues or expenditures.

While intended to be of value to a broad range of organisations, it has been developed with the particular needs and operating circumstances of local governments in mind.

### Key Points:

- Financial Planning is an essential component of optimally providing services from infrastructure.
- A long-term financial plan is a plan for generating, spending and investing future income and raising and repaying borrowings as appropriate. It will highlight the financial implications of an entity's proposed activities and anticipated events. It includes a projection of an organisation's financial performance and position over this period. It should be consistent with, and express financially, actions required to give effect to strategies proposed in the organisation's other strategic planning documents including its asset management plans.
- A long-term financial plan seeks to efficiently and equitably accommodate ongoing funding of:
  - existing services -operations, maintenance, asset renewal and upgrade, and
  - new services and assets as required.

### Further detail

Local governments typically are asset rich but income poor. Inquiries into the financial sustainability of local governments consistently identified the short forward financial planning horizon of many local governments, often only using an annual budget, as a key factor affecting financially sustainable decision-making. The inquiries emphasised the particular importance of long-term financial planning for organisations that are responsible for managing and generating service from a large stock of long-lived assets such as local governments. Long-term financial planning and the use of accrual accounting, rather than cash accounting, for reporting and decision-making as well as better asset management were identified as crucial for local government financial sustainability.

A long-term financial plan is more than just an estimate of forward revenue and expenditure projections. It needs to:

- be underpinned by a sound financial strategy to ensure that the organisation's financial sustainability is protected or improved as necessary. This includes ensuring that asset maintenance, renewal and replacement activity is optimised to minimise whole-of-life costs relative to required service levels
- accommodate affordable service levels proposed in the organisation's strategic plans.

If an organisation does not maintain financial sustainability over the medium to longer-term, or take steps to improve financial sustainability where this is warranted, then it is not fulfilling one of its key responsibilities. The problem will not go away by itself and delaying action will simply make the challenge more painful to deal with by being more expensive and more inequitable when it inevitably must be addressed e.g. when assets prematurely fail and the organisation can't afford to replace them.

A long-term financial plan may suggest that trying to achieve desired service levels will jeopardise ongoing financial sustainability. The organisation then needs to consider various alternative strategies to overcome this conundrum. Each organisation should evaluate various options before ultimately settling on a long-term financial plan that is compatible with a financial strategy that supports its financial sustainability. It should consider a range and level of services that best meets service level needs and preferences.

How to go about doing this is outlined in subsequent sections of the Practice Note.

### Contents:

- Long-term financial plans – An overview
- Determining a financial strategy
- Accommodating asset management expenditure needs
- Financial management information needs
- Use and types of borrowings
- Content of long-term financial plans
- Sensitivity analysis

Appendices include information about suggested structure and level of presentation of financial information plus illustrative examples of: assumptions that might be disclosed in a long-term financial plan; listing capital works in a long-term financial plan; and an example 'narrative overview' that might accompany such a plan.

**About IPWEA Practice Notes:**

The Long-term Financial Planning Practice Note is one of a series of Practice Notes developed by the National Asset Management Strategy Group (NAMS.AU) of IPWEA. The aim is to assist practitioners in applying best practice and where appropriate foster a national approach and encourage consistency of data and outputs. Each Practice Note will be a living document, subject to review and update as further and better information comes to hand.

**Further Links:**

- Practice Note No.6 – Long-term Financial Planning [www.acelg.org.au/program-details.php?pid=4](http://www.acelg.org.au/program-details.php?pid=4) or [www.ipwea.org.au/LTFP](http://www.ipwea.org.au/LTFP)
- IPWEA LTFP Excel model: [www.ipwea.org.au/LTFP](http://www.ipwea.org.au/LTFP)
- Other IPWEA Practice Notes: [www.ipwea.org.au/practicenotes](http://www.ipwea.org.au/practicenotes)
- IPWEA Community of Practice in Asset Management: Visit [www.ipwea.org.au/AM](http://www.ipwea.org.au/AM)

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