

**LOCAL GOVERNMENT AND PLANNING  
MINISTERS' COUNCIL**

**Local Government Financial Sustainability  
Nationally Consistent Frameworks**

**Framework 3**

**FINANCIAL PLANNING AND REPORTING**

**May 2007**

## **FINANCIAL PLANNING AND REPORTING**

### **1. INTRODUCTION**

#### **1.1 Task**

To develop a nationally consistent approach to financial planning and reporting and to set out the elements of the national framework.

#### **1.2 Scope and Purpose of this Paper**

This paper sets out the background, principles and elements of a national financial planning and reporting framework with a view to this material being endorsed by LOGJOG.

The paper:

- outlines why a national financial planning and reporting framework is important for the overall financial sustainability of local governments;
- presents key challenges that councils face in managing their finances;
- identifies the key principles that underpin a national financial planning and reporting framework; and
- identifies the proposed elements of a national financial planning and reporting framework.

#### **1.3 Definition of financial planning and reporting**

This paper is concerned with developing a national financial planning and reporting framework which focuses on local governments' financial management at both the strategic longer term and annual planning levels, as well as the annual reporting level, and especially on the linkages and ease of comparability, for the community, between these levels so that it is easy to determine what council said that it would do compared with what was actually done and explains why variances arose.

#### **1.4 Background**

The outcomes of the 26 May 2006 Local Government Ministers' Roundtable on Financial Sustainability of Councils proposed the development of nationally consistent approaches to: (i) criteria for assessing financial sustainability of local councils; (ii) asset planning and management; and (iii) financial planning and reporting.

It was considered that a case for more funding through Financial Assistance Grants may be enhanced by jurisdictions implementing a nationally consistent approach to these issues.

### **2. TOWARDS A NATIONAL FRAMEWORK**

#### **2.1 Management of local government finances**

Councils provide physical assets, infrastructure, to contribute to meeting the public's need for access to major economic and social facilities and services. A key issue facing local governments throughout Australia is management of the financing of ageing assets in need of renewal and replacement. Infrastructure assets such as roads, drains, bridges, recreational, leisure and community facilities present particular challenges as their relative sizes can be large resulting in large peaks and troughs in expenditure which need to be planned for. The cash accounting mindset with a view to determining a rate which will finance this year's needs is not sufficient to allow for such major works. Strategic planning based on asset management plans is necessary to determine if councils will be able to finance the works necessary to continue to provide service levels.

The creation of new assets also presents challenges not just in terms of financing initial construction (which is often grant assisted) but in financing the ongoing operating and replacement costs which will be necessary during the full life cycle.

The development of a national framework for financial planning and reporting should support improved financial management by local governments across Australia. It should assist in highlighting key financial management issues where a common approach is needed.

A national approach should promote prudent, transparent and accountable financial management by local governments. It should encourage a strategic approach to meet current and emerging challenges.

### **3. GUIDING PRINCIPLES FOR A NATIONAL APPROACH**

The guiding principles that underpin the development of a national financial planning and reporting management framework should allow each State and Territory to consider and determine how the elements of the national framework will be accommodated and implemented.

The guiding principles are that:

- a nationally consistent approach to financial planning and reporting should sit within the context of each State and Territory's legislative and operating framework. States and Territories should be able to implement the elements of the financial planning and reporting framework in accordance with their own particular circumstances which may include legislative reform, policies, programs or best practice guidance; and
- the elements of a national framework should not limit councils in their financial planning and reporting programs. There may be additional elements that individual jurisdictions may wish to pursue.

*Councils should also continually work to improve the consistency of the financial data they produce, particularly in relation to capital expenditure and the allocations between maintenance, renewal and upgrade.*

### **4. ELEMENTS OF A NATIONAL FRAMEWORK**

#### **4.1 Overview**

The planning and reporting framework should be given effect to in the following way:

- strategic longer term plan
- annual budget, and
- annual report.

These documents provide a framework that covers the council's direction setting, monitoring and resource allocation.

#### **4.2 Strategic longer term plan (plan)**

The strategic longer term plan is to be for a fixed period. As a minimum it covers the term of office of the councillors as well as reflecting the needs of the community for the foreseeable future.

The plan brings together the detailed requirements in the council's longer term plans such as the asset management plan and the longer term financial plan and details what council expects to do in the longer term. It also demonstrates how council intends to resource the plan.

### Public consultation

*Consultation with communities should be central to the development of strategic, longer term planning by councils.*

### Contents of a plan

The plan should include:

- where the municipality is at that point in time – current position;
- where it want to get to – vision and strategic objectives of the council;
- how it is going to get there – strategies for achieving those objectives;
- mechanisms for monitoring the achievement of the objectives; and
- how the plan will be resourced.

## **4.3 Budget**

Councils prepare a budget for each financial year.

### Contents of a budget

A budget includes:

- Estimates of revenue and expenditure;
- Explanation of how revenue will be applied;
- Connection to the strategic objectives; and
- Explanation of the financial performance and position of the council.

Information contained in the budget should be presented in a way which is usable and understandable by the community and which can be compared with the audited financial statements.

### Public consultation

*Consultation with communities should be central to the development of the budget. Councils should leave sufficient time to include the outcomes of their community consultation process in preparing their budget.*

## **4.4 Annual Report**

Councils prepare an annual report in respect of each financial year.

### Contents of an annual report:

The contents of an annual report are:

- a report on the council's operations during the financial year;
- audited financial statements for the financial year;
- an explanation to the community on variations between the budget and the actual results; and
- the impact on longer term strategic plan of such variances.

### Report of operations

The report of the council's operations (in the annual report) needs to include a broad range of information, particularly:

- reviews on the performance of the council against strategic objectives;
- information on a range of other matters such as major works undertaken, the range of activities undertaken, major policy initiatives and major changes in the council's functions or structures; and
- details about the council, including information about the councillors, the chief executive officer, senior officers and the organisational structure.

### Financial statements

The financial statements are compiled on an accruals basis in accordance with Australian Accounting Standards and are independently audited.