

THE MODEL TEMPLATE

IPWEA Practice Note No.6 (LTFP)

Instructions for the use of Excel model for Preparation of a Long-term Financial Plan

Suggested format and content



THE MODEL TEMPLATE**Contents**

1. Introduction	3
2. Getting Started	3
3. Integrity Worksheet.....	5
4. Summary Fin Perf & Position Worksheet.....	5
5. SFPP Variances Across Years Worksheet	6
6. Op Rev & Op Exp Worksheet	6
7. Replacement Assets Worksheet	7
8. New Assets Worksheet.....	8
9. Op Surplus Ratio Worksheet.....	9
10. NFL Ratio Worksheet	9
11. Asset Renewal Funding Ratio Worksheet.....	9
12. Financial Indicators & Data Worksheet	10
13. Financial Indicators & Data VAR Worksheet.....	10
14. AMP by Class Worksheet	10
15. Bal Sheet & Fin Trans Worksheet	11
16. Bal Sheet & Fin Trans Variance Worksheet	11
17. Balance Sheet Worksheet.....	11

THE MODEL TEMPLATE

1. Introduction

The Institute of Public Works Engineering Australia (IPWEA), with the support of the Australian Government and the Australian Centre for Excellence for Local Government (ACELG), has produced Practice Note No. 6 – Long-term Financial Planning. It builds on relevant content of the Australian Infrastructure Financial Management Guidelines (AIFMG) produced by IPWEA.

The document is available in soft copy form without charge from ACELG and from the IPWEA. A hardcopy book can be purchased from IPWEA (see <http://www.ipwea.org.au/ipwea/bookshop/>). The Practice Note provides guidance on the preparation of a long-term financial plan (LTFP), with particular regard to issues relevant to local governments and other entities that are responsible for managing large portfolios of physical assets.

The Practice Note emphasises that each organisation needs to determine the form of a LTFP that best suits its needs and any legislative requirements. There are many proprietary products available that can assist organisations to prepare a LTFP and meet their specific format requirements. An entity could though, if it prefers, prepare a LTFP without recourse to such resources.

A long-term financial plan need not be detailed and complicated. In fact Practice Note No. 6 encourages a simple approach to help maintain a strategic focus. It includes an illustrative template at Appendix I of minimalist and generally applicable key financial outputs that an LTFP should generate.

To provide assistance to organisations that wish to consider preparing a LTFP without use of proprietary software, IPWEA has developed a very straight-forward Excel based LTFP model to input financial projections and generate outputs in the form of Appendix I of the Practice Note. The model can be used as is but is also readily adaptable to accommodate specific local content and layout needs.

Feedback on the model and these instructions is welcome and will be considered in possible future updates. Feedback can be provided via email to national@ipwea.org.au .

2. Getting Started

Users will find it helpful in utilising the model if they first familiarise themselves with the approach recommended for preparation of a LTFP and its rationale as outlined in Practice Note No. 6.

The model has been written as an Excel 97 – 2003 Workbook. Its use to generate a LTFP or fine-tune the model to accommodate specific local needs

THE MODEL TEMPLATE

and preferences requires only a basic level of familiarity with Excel. It is made up of 17 worksheets. Data input in many of the worksheets is utilised in other worksheets using linking formula.

Cells in each worksheet highlighted in yellow require user-input.

Cells that are not highlighted in yellow either contain labels or formulas to generate outputs. These formulas access inputs from either the currently viewed worksheet and/or other worksheets in the model.

Formulas or values can be entered into the yellow highlighted cells as preferred. For example a formula may be preferred to factor up a value in one or more subsequent periods.

Each worksheet has a header label. Worksheets with yellow highlighted name tabs contain summary level data that may be warranted reporting in an LTFP document. Worksheets with name tabs not highlighted have 'Working Paper' as header labels. Users may choose the level of detail that they report and header labels changed as appropriate including replacing the words "XXX Council" with their own organisation's name in the header of each worksheet.

There are 3 worksheets in the model that calculate the movements from year to year for content of particular worksheets. These 'Variance' worksheets have been provided to enable users to readily observe fluctuations in projected key output data between periods and hence assess where changes in proposed inputs may be warranted in order to achieve financial performance within the user-specified target ranges.

Practice Note No. 6 recommends that LTFP's be prepared in real rather than nominal values (refer Section 9.5). The model has been designed with the assumption that users will prepare their LTFP in real (current day, that is Year 1) values. Since financial assets and outstanding borrowings typically remain unchanged in nominal value with inflation (that is, they reduce in real value), the model provides a mechanism to reduce their real value. (This issue is also further discussed in Section 17 of these instructions.) A user could though, if preferred, prepare a LTFP in nominal values simply by escalating input values between periods by the assumed inflation rate.

The model has been structured with minimal lock down / protection to allow users to modify content layout detail or even add additional linked worksheets as desired. This could include for example worksheets for data input sourced from asset management plans showing asset management expenditure outlay needs. Where users insert an additional row of data in a worksheet (for example to provide a more detailed breakdown of asset classes) and any input data in adjacent rows is utilised via linking formula in other worksheets then a corresponding additional row also needs to be inserted in those affected worksheets to pick up this additional information.

THE MODEL TEMPLATE

Worksheet cells that require dollar value inputs have been labelled for input in thousands of dollars (\$'000). To assist with a strategic focus even very small local governments should not try to enter data at a lower value level than this. Larger local governments could re-label headings and enter data in millions of dollar (\$M) (and possibly to one decimal place).

Guidance on populating the model is included in various 'comment boxes' in many of the worksheets.

3. Integrity Worksheet

This worksheet provides checks to ensure there are no data input mistakes that generate imbalances in the model. Once data input to the model has been completed, this worksheet should be reviewed. There should be no values in any of the cells. If there are then there is an imbalance that needs to be corrected.

4. Summary Fin Perf & Position Worksheet

The label is an abbreviation of 'Summary of Financial Performance and Position' (SFPP).

The only data that needs to be entered is the date of the base (Year 0) year (for example, '2011'). Other cells are populated via linking formula to other worksheets in the model.

The SFPP highlights the operating surplus/(deficit) measure. This is usually the most critical indicator of an entity's financial performance.

The table also shows the organisation's projected 'net lending/(borrowing)' result for each period. 'Net lending/(borrowing)' is a 'flow' measure that takes account of both operating and capital activities for the financial year.

Achieving a zero result on the net lending/(borrowing) measure in any one year essentially means that the entity has met all of its expenditure (both operating (net of depreciation) and capital) from the current year's income (with income including amounts received specifically for new/upgraded assets as well as proceeds from the disposal of assets).

Examples of inputs for various components of the SFPP are:

- *Capital Expenditure on Renewal and Replacement of Existing Assets:* e.g. Roads reseals, replacement tractor, building renovations, replacement computer hardware.

THE MODEL TEMPLATE

- *Proceeds from Sale of Replaced Assets*: e.g. trade-in value of a tractor being replaced.
- *Capital Expenditure on New & Upgraded Assets*: e.g. sealing a previously unsealed dirt road, constructing a new building, purchasing a piece of machinery that was not previously on hand.
- *Amounts Specifically for New or Upgraded Assets*: e.g. capital grants to partly fund a recreation centre or to build new footpaths that did not previously exist.
- *Proceeds from Sale of Surplus Assets*: e.g. proceeds from the sale of a building that was no longer required, sale of surplus land.

5. SFPP Variances Across Years Worksheet

No data is required to be entered in this worksheet. It shows movements from one year to the next for each category of values in the preceding 'Summary Fin Perf & Position' Worksheet.

There are several 'variance' worksheets included in the model. They enable the user to easily identify significant changes in values of for example revenues, expenses, assets and liabilities between periods and thus help identify 'drivers' of financial outcome projections. This information can then be used to help determine variations in proposals to ensure projected financial outcomes meet required targets.

6. Op Rev & Op Exp Worksheet

The label is an abbreviation of 'Operating Revenue and Operating Expenses'.

This worksheet is intended to replicate the form of the 'Statement of Comprehensive Income' adopted by the entity in the preparation of its annual financial statements. Rows can be edited and additional ones added to achieve preferred format requirements. A user may choose to break down revenue and expenses into more categories in this worksheet than in their Statement of Comprehensive Income. They could also if preferred aggregate inputs for this worksheet in a separate additional worksheet and introduce totals generated into this worksheet through linking formulas.

As in other worksheets all yellow highlighted cells need to be populated. Other data cells either are totals or data sourced from other worksheets.

THE MODEL TEMPLATE

Actual financial performance reported in the entity's audited financial statements should be the basis of data input in Year 0. Year 1 data should be sourced from the adopted budget (or updated forecast if available).

Users should carefully consider factors relevant to determining values for data input cells. For example, relevant factors could include:

- Data entered in Years 0 and 1;
- Projected increases in revenue arising from increases in prices for specific activities or inputs (over and above inflation) or volume (for example, growth);
- Introduction of new services, or discontinuation of existing ones;
- Expected real increases or decreases in prices (over and above the general inflation rate) or volumes and levels of existing services (including both discretionary and because of growth);
- Impacts of changes in mandated obligations on the entity.

In order to determine financing charges (i.e. interest on borrowings) an estimate should have regard to the projected opening and closing balance of borrowings each year and prevailing interest rate levels. It shouldn't be necessary to calculate interest payable on particular loans each period. Even if it could be predicted with certainty it is unlikely to provide material improvements in overall estimates.

An entity should have careful regard to annual asset management maintenance requirements determined as necessary in its asset management plan and be clear whether this is adequately provided for in its annual expense projections. (See also Section 14 below.)

Practice Note No. 6 provides guidance in determining inputs (and their basis) to a LTFP (see in particular Sections 9.2 to 9.4).

The summary content of this worksheet feeds into the 'Summary Fin Perf & Position' Worksheet.

7. Replacement Assets Worksheet

This worksheet shows:

- Capital Expenditure on Renewal or Replacement of Existing Assets;
- Depreciation, Amortisation & Impairment - Existing and Replaced Assets;
- Depreciation, Amortisation & Impairment - New Assets.

THE MODEL TEMPLATE

The worksheet has been set up to input capital expenditure on renewal or replacement of existing assets based on the corresponding content of the entity's asset management plan where available (by use of linking formula to data in the 'AMP by class' worksheet). Alternative values or sources can be input if preferred by de-activating these linking formula.

Users can re-label and/or add or delete rows so that categories in this worksheet correspond with those used in preparation of the entity's asset management plan.

Depreciation, amortisation & impairment for existing and replaced assets should be determined for future years having regard to values included in Year 0 and Year 1.

For example, if existing assets are proposed to be replaced when necessary, are depreciated on a straight-line basis and their replacement cost value moves approximately in line with inflation then inputs in each row for Years 2 to 10 could reasonably be assumed to be the same as in Year 1. The fact that assets may only be re-valued say every 3 years could be built in to the data input if preferred but would have little real overall impact. Any assets disposed of and not replaced is unlikely to have a meaningful impact on future depreciation but this could be allowed for if material. Proceeds from sale of surplus assets information is included in the 'New Assets' worksheet. It will give a guide as to whether there may be a material reduction in depreciation expenses following disposal and non-replacement of existing assets.

The worksheet also calculates additional depreciation expenses arising from acquisition or construction of new additional assets. It assumes depreciation commences in the year following acquisition or construction and the use of straight-line depreciation. Users are required to input average estimated useful lives and residual values for each class of assets. Asset categories could be broken-down into as much detail as preferred (e.g. for sub-categories within categories for asset classes with different useful lives). However unless the mix of assets in a category changes very substantially over a few years a weighted average useful life and weighted average residual value of assets in each category is likely to be sufficient for long-term financial planning purposes.

8. New Assets Worksheet

This worksheet shows:

- Capital Expenditure on New/Upgraded Assets;
- Amounts Specifically for New/Upgraded Assets;
- Proceeds from Sale of Surplus Assets.

THE MODEL TEMPLATE

The worksheet requires input of forecast capital expenditure on new/upgraded assets over the planning period. This information may be available from the entity's asset management plan.

Users can re-label and/or add or delete rows so that categories in this worksheet correspond with those used in preparation of the entity's asset management plan.

9. Op Surplus Ratio Worksheet

This worksheet shows a graph of the entity's projected operating surplus ratio and the target range set for this indicator for each year of the LTFP.

The graph is based on data contained in the proceeding 'Financial Indicators & Data' worksheet. That worksheet calculates the annual operating surplus ratio as the operating result expressed as a percentage of the entity's major controllable source of operating income (as currently recommended in the AIFMG). If preferred the denominator could be adjusted to include total operating revenue.

Practice Note No. 6 highlights (see Section 7.3) that work is currently proceeding with a view to achievement in 2012 of an agreed consistent set of local government financial indicators to be applied by all local governments across all Australian jurisdictions.

10. NFL Ratio Worksheet

This worksheet shows a graph of the entity's projected net financial liabilities ratio and the target range set for this indicator for each year of the LTFP.

The graph is based on data contained in the proceeding 'Financial Indicators & Data' worksheet. That worksheet calculates the net financial liabilities ratio as net financial liabilities expressed as a percentage of the entity's total operating income. Net financial liabilities are an entity's total liabilities less its holdings of financial assets (excluding equity accounted investments in entity businesses).

The AIFMG recommends use of the net financial liabilities ratio as the key indicator of an entity's financial position.

11. Asset Renewal Funding Ratio Worksheet

This worksheet shows a graph of the entity's projected asset renewal funding ratio and the target range set for this indicator for each year of the LTFP.

THE MODEL TEMPLATE

The graph is based on data contained in the proceeding 'Financial Indicators & Data' worksheet. That worksheet calculates the asset renewal funding ratio as the capital expenditure on renewal/replacement of existing assets accommodated in the entity's LTFP expressed as a percentage of its asset management plan's recommended capital expenditure on renewal/replacement of existing assets for the corresponding period.

The AIFMG recommends use of the asset renewal funding ratio as a financial indicator. Where an entity doesn't yet have a reliable asset management plan it may prefer to replace this indicator with the asset sustainability ratio measured by the capital expenditure on renewal/replacement of existing assets accommodated in the entity's LTFP expressed as a percentage of depreciation for the corresponding period.

12. Financial Indicators & Data Worksheet

Users are required to enter target ranges for each period for the three financial indicators reported on.

The AIFMG (see section 2.6) and Practice Note No. 6 (see Section 7.3) provide advice on setting financial indicator target ranges.

13. Financial Indicators & Data VAR Worksheet

This worksheet shows movements in financial indicator minimum (floor) and maximum (ceiling) targets and actual projected performance from one year to the next.

It is one of several 'variance' worksheets included in the model.

It enables a user to readily identify significant changes between years and therefore help determine if changes in expenditure or revenue proposals are warranted.

14. AMP by Class Worksheet

This worksheet shows key asset management data sets by asset class. These data sets are:

- Maintenance expenditure required according to the AMP to maintain existing assets;

THE MODEL TEMPLATE

- Maintenance expenditure actually included in the LTFP to maintain existing assets;
- Capital expenditure proposed in the AMP on renewal or replacement of existing assets.

Users can re-label and/or add or delete rows so that categories in this worksheet correspond with those used in preparation of its asset management plan.

15. Bal Sheet & Fin Trans Worksheet

This worksheet shows a summary of Balance Sheet data and a summary of projected financing transactions.

It only requires the user to insert the proposed repayments of borrowings for each period. Typically this would relate to loans with specified annual principal repayments (e.g. credit foncier loans) and finance leases and could be linked to a loan repayment schedule should that be available in spreadsheet format. Input could also be included for repayment of any outstanding balance on borrowings that allow discretionary repayments but this is not necessary as the model automatically allows for this where available cash so permits (see Section 17).

The rest of the data in this worksheet is generated by linking formula from other worksheets.

16. Bal Sheet & Fin Trans Variance Worksheet

This worksheet shows movements in summary Balance Sheet data and summary financing transactions data from one year to the next. It enables a user to readily identify significant changes between years.

It is one of several 'variance' worksheets included in the model.

No data input is required in this worksheet.

17. Balance Sheet Worksheet

This is the most complex worksheet in the model. Care needs to be taken in inputting data as errors will result in an out of balance result (that is the total value of assets less total liabilities may not equal total equity for a period).

The complexity arises primarily because the model effectively discounts the projected value of net outstanding borrowings or cash and cash equivalents by

THE MODEL TEMPLATE

the assumed inflation rate to determine their real (i.e. current day) value. A user who chose to prepare an LTFP in nominal values would need to include an assumed inflation rate of 0% in Row 51. This is because net outstanding borrowings or cash and cash equivalents are already in nominal values and would therefore not need to be discounted.

The worksheet also assumes that surplus cash will be applied to reduce outstanding borrowings wherever possible (since interest rates on lendings will normally be less than those on borrowings). In some cases it will not be possible for an entity to apply available cash to reduce outstanding borrowings but for the purposes of long-term financial planning the difference in outcomes is not likely to be material. A user could though if preferred add an amount after the formula for any cell in Row 6 to provide a balance in 'Cash and Cash Equivalents'. If this is done, though, an identical amount would need to be added to 'Borrowings'.

Borrowings are calculated by a formula that takes the closing balance of borrowings from the previous year and adds the Net Lending / (Borrowing) result from the Summary of Financial Performance and Position report - see paragraph 4 above. This amount is then discounted by the assumed inflation rate. 'IF statement' formulas in rows 6 and 35 determine if the amount on hand is cash or borrowings and report the total calculated in row 54. Users should allocate the quantum of 'Borrowings in real values' (Row 54) to 'Current Borrowings' (Row 23) as appropriate. The model will then assign the balance to 'Non-current borrowings' (Row 35).

There should be no need to amend formulas for cells not requiring data input however it is important to understand where the data comes from in case these formulas are accidentally amended. Details of complex formulas, for example for calculating balances for 'Cash and Cash Equivalents' and 'Infrastructure, Property, Plant & Equipment' are included in 'comment boxes' in the worksheet.

The model assumes that asset categories like 'Current Trade & Other Receivables' and 'Inventories' and liabilities like 'Provisions' do not change (in real terms over time). These items are typically of relatively low value and even if they did change significantly the impact (e.g. on cash holdings or borrowings) is likely to be very minor from a long-term financial planning perspective.

The 'Asset Revaluation Reserves' and 'Other Reserves' are also assumed to be constant across the planning period.