Department of Infrastructure, Local Government and Planning

Financial Management (Sustainability)

Guideline 2013

Version 1.1

For the purposes of explaining the concept of sustainability and to provide guidance for calculating the relevant financial sustainability measures specified in Section 169(5) of the Local Government Regulation 2012 and Section 160(5) of the City of Brisbane Regulation 2012.

Queensland Government

The Guideline

This Guideline supersedes the *Financial Management (Sustainability) Guideline 2011*, and is to be used in the calculation of the *relevant financial sustainability measures* detailed in Section 169(5) of the *Local Government Regulation 2012* and Section 160(5) of the *City of Brisbane Regulation 2012*. The concept of sustainability is also discussed and illustrative calculations of the sustainability measures provided.

Updates since 2011 Financial Management (Sustainability) Guideline

In the interests of streamlining the Sustainability and Reporting process and reducing red tape, the Department has:

- reviewed the financial sustainability provisions in the Acts and Regulations.
- reduced the number of relevant financial sustainability measures to three key ratios by removing the Working Capital Ratio, Interest Coverage Ratio and Asset Consumption Ratio as measures.
- integrated calculations and sample disclosures required for the *relevant financial sustainability measures* into the Department's 2012-13 *Tropical Council Illustrative Financial Statements*.
- established a working group with Queensland Treasury Corporation (QTC), and agreed upon a set of key measures (including names, calculation methods, definitions and target ranges) to be used by each party for assessing financial sustainability in Queensland. In addition to these agreed measures, QTC will continue to utilise its own set of credit metrics when undertaking QTC Credit Reviews and may supplement the agreed measures when undertaking Financial Sustainability Reviews.

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1. Introduction

Local governments are responsible for directly providing residents in a local government area, a wide range of public services, and access to essential utilities and community facilities. This requires local governments to hold and maintain a significant base of infrastructure assets, which necessitates not only substantial initial investments, but also continued expenditure to maintain and renew assets over the course of their respective useful lives.

It is paramount that long-term financial and asset management planning is undertaken to ensure local governments can continue to provide the desired levels of services to residents now and into the future, within the confines of their respective financial capacities.

In 2011-12, local governments across Queensland indicated they are managing some $85.4 billion in infrastructure assets and are generating approximately $4.04 billion in net rates and utility charges.

Sustainability and Reporting in Queensland

The Sustainability and Reporting process for Queensland local governments commenced in 2009 with the implementation of the *National Frameworks for Sustainability*. These Frameworks seek to ensure that all local governments in Australia adopt long-term financial and asset management planning processes. The concept of sustainability also involves considering the impacts of a local government's current policies on its ability to maintain the desired service levels over the long-term. However, in accordance with the *Local Government Act 2009* and *City of Brisbane Act 2010 (the Acts),* the current approach adopted in Queensland is to focus on the ability to maintain financial and infrastructure capital over the long-term (captured in long-term asset management plans and financial forecasts).

The emphasis on long-term planning for infrastructure assets strengthens a local government's capacity to plan and determine the long-term requirements for services, service levels and associated costs. Understanding such future financial commitments assists local governments in the development of strategies that address key decisions surrounding the approach to not only service provision, but also revenue (including rating methodologies) and borrowing policy formulation.

Under the Acts and the *Local Government Regulation 2012* and the *City of Brisbane Regulation 2012* (the Regulations), local governments are required to calculate and disclose the *relevant financial sustainability measures* in budget documents, long-term financial forecasts and annual reports. Attachment 2 summarises key sustainability requirements contained in the Acts and Regulations.

2. Concept of Sustainability

Defining Sustainability

Section 104(2) of *Local Government Act 2009* and Section 103(2) of the *City of Brisbane Act 2010* provide a definition of financial sustainability:

> *A local government is **financially sustainable** if the local government is able to maintain its financial capital and infrastructure capital over the long-term.*

As demonstrated above, there are three key elements to financial sustainability:

- maintaining financial capital
- maintaining infrastructure capital
- over the long-term

> ***Financial capital** refers to the productive capacity provided by the working capital of the local government.*

> ***Working capital** refers to the capital used to undertake day-to-day operations. It is represented by the difference between current assets and current liabilities.*

> ***Infrastructure capital** refers to the productive capacity provided by the significant asset classes of the local government that provide or support public services — e.g. roads, water and sewerage assets, drains, bridges, footpaths and public buildings. In a financial sense, the infrastructure capital is represented by the non-current assets and financing liabilities (debt financing and lease financing) of the local government.*

> ***Long term** refers to a period of at least 10 years.*

Strategies for sustainability attempt to effectively manage each of the capital components individually but within an integrated approach, and not manage one component to the detriment of another.

The sustainability of local governments in Queensland has been directly linked to the development and ongoing use of asset management plans to provide a basis for the maintenance of the infrastructure of the local government, together with the development and use of long-term financial forecasts to assess the ongoing financial viability of the local government.

The current and expected level of population growth in a local government area, together with factors such as the number and type of dwellings and levels of employment and use of public transport also provide context to the development of a sustainability strategy.

For both financial capital and infrastructure capital, the emphasis is on maintaining the service capacity in the long-term. This provides the basis for the selection of the appropriate measures for evaluation and hence inclusion in the Regulations.

The long-term plans should be regularly reviewed so that the underlying assumptions remain defensible and the resulting forecasts remain reasonable. As circumstances change over time, plans for the future must also be adjusted.

Forming a view on Sustainability

There is a significant difference between measuring and reporting on the extent to which capital has been maintained, and forming a view on sustainability. The extent to which capital has been maintained in a given period is a reflection of the current state of the local government, while sustainability is a reflection of the future impacts of current policies.

Sustainability is a strategy, where point-in-time assessments and reports are used to provide a periodic assessment of the outcomes achieved by the strategy. The periodically reported actual results give an indication of the likely success or failure of the continued use of the strategies.

Currently only financial capital and infrastructure capital of local governments have the necessary available data to allow current assessments to be undertaken on a periodic basis. A separate consideration is the extent to which a review of current capital maintenance policies can be undertaken to determine whether sustainability is likely. In terms of local government capital, this can be achieved using a combination of financial, non-financial and qualitative data inputs. The *National Frameworks* provide a starting point for assessments of this type.

Approach to Sustainability

The Department is facilitating progression towards local government Sustainability by:

- encouraging an emphasis on long-term financial forecasting and asset management planning;
- encouraging tighter integration between financial and asset management planning processes; and
- encouraging transparency through requirements to review and report key Sustainability measures.

Key indicators and considerations of Sustainability

The table below summarises the key indicators of Sustainability that have been adopted in Queensland.

Sources of funding	An appropriate reliance on the use of debt and own-source revenues.
Asset management and renewal	The long-term financial forecast incorporates the long-term asset management financial forecasts.
Infrastructure capital sustainability	There are no apparent financial difficulties in funding the required long-term infrastructure asset renewals. The infrastructure asset base is being renewed at a rate that is consistent with its long-term consumption.
Financial capital sustainability/viability	Balanced budgets or consistent operating surpluses are expected on average, over the long-term

***Own-source revenues** refer to those revenues that a local government has direct influence over. It is represented by total operating revenues less grants and subsidies, and profit from investments in associates or joint ventures.*

The Department considers own-source revenues to include:

- rates and utilities charges (less discounts and pensioner remissions);
- fees and charges;
- sales (contract and recoverable works) and rental income;
- interest, dividend and commissions received.

The Department considers the following to be excluded from own-source revenues calculations:

- profit from investments in associates or joint ventures
- State and Federal Government Grants and Subsidies

In developing and reviewing effective long-term sustainability strategies, local governments should consider whether (over the forecast period):

- there is a long sequence of operating deficits
- the cash position remains at adequate levels
- there is evidence that working capital is being actively managed
- adequate levels of investment in infrastructure asset renewals are being maintained
- proposed loan borrowings help balance future cash needs
- the local government is expecting to maintain or increase its own-source revenues.

Local governments should also look to ensure that:

- asset management plans are in place, and that the Councillors have considered the services, service levels, costs and risks associated with the services offered;
- the financial forecasts pertaining to assets (as contained in the asset management plans) have been linked to a long-term financial forecast;
- the underlying assumptions, discount rates and growth rates upon which the asset management plans and long-term financial forecasts are prepared, are regularly reviewed and updated; and
- the local government consistently reviews its operations, looking for more efficient ways of delivering the service;

Working capital *see previous section for explanation.*

3. Relevant Measures of Sustainability

A key aspect of assessing sustainability is the calculation of relevant measures in budgets, long-term financial forecasts, and current year and long-term sustainability statements. Section 169(5) of the *Local Government Regulation* 2012 and Section 160(5) of the *City of Brisbane Regulation 2012* outline the three relevant measures of financial sustainability for all Queensland local governments have to report on:

- Asset Sustainability Ratio
- Net Financial Liabilities Ratio
- Operating Surplus Ratio

In accordance with Section 169(5) of the *Local Government Regulation 2012* and Section 160(5) of the *City of Brisbane Regulation 2012,* the definitions and formulae outlined in this Guideline must be followed when calculating the *relevant measures of sustainability.*

Selection of Measures

Following the meeting of State and Territory Ministers for Local Government in May 2006 (as part of the former Local Government and Planning Ministers' Council), the following three national frameworks were developed:

- Framework 1: Criteria for assessing local government financial sustainability
- Framework 2: Asset planning and management
- Framework 3: Financial planning and reporting

Framework 1 asserts that for financial sustainability indicators to be effective, they must:

> *(1) measure those factors which define financial sustainability;*
> *(2) be relatively few in number; and*
> *(3) be based on information that is readily available and reliable.*

Source: Framework 1: Criteria for assessing financial sustainability, Local Government and Planning Ministers' Council, May 2007.

The selected ratios satisfy the above assertions. The Asset Sustainability Ratio measures the ability to maintain infrastructure capital over the long-term, whilst the

Operating Surplus and Net Financial Liabilities Ratios measure the ability to maintain financial capital over the long-term.

The *relevant measures of financial sustainability* were intentionally limited to three ratios in order to achieve a balance between disclosing sufficient indicators to enable an objective assessment of a local government's financial sustainability to take place, and ensuring there is minimal, additional administrative burden placed on local governments.

The table below provides a summary of the objectives of the *relevant measures of financial sustainability* and how they relate to the two key components of sustainability.

	Relevant measure(s)	Objective of measures
Infrastructure capital	*Asset Sustainability Ratio*	Identification of a local government's existing asset base consumption and renewals levels and capacity to fund the level of investment needed over the long-term
Financial capital	*Operating Surplus Ratio* *Net Financial Liabilities Ratio*	Identification of a local government's financial capacity and ability to fund ongoing operations over the long-term

As demonstrated in the sections following, the inputs for each of the *relevant measures of financial sustainability* are able to be drawn from a combination of a local government's internal management accounting system and the financial statements. Where possible, the terminology used to describe each input for the ratios has been aligned with that used in the Department's *Tropical Council Illustrative Financial Statements*.

Reviewing the measures

Local governments should not view the *relevant measures of sustainability* as targets that must be met at the end of each financial year. Instead, the anticipated long-term results from these measures should be considered as planning tools to assess a local government's current sustainability strategy. This feedback will then enable local governments to adjust their respective strategies to produce the desired outcomes over the long-term. This may involve amendments to adopted policies, and/or changes to the desired service levels or proposed capital expenditure programs, which in turn, feed into revisions to the budget and long-term financial forecast.

Asset Sustainability Ratio

Asset Sustainability Ratio *(expressed as a percentage) is an approximation of the extent to which the infrastructure assets managed by a local government are being replaced as they reach the end of their useful lives.*

Formula	$$\frac{\textit{Capital Expenditure on Replacement of Assets (Renewals)}}{\textit{Depreciation Expenditure}}$$
Target	> 90% per annum (on average over the long-term)

		What does this mean?
Higher than target	*> 90%* *on average over the* *long-term*	*A local government is likely to be sufficiently maintaining, replacing or renewing existing infrastructure assets as they reach the end of their useful life.*
Lower than target	*< 90%* *on average over the* *long-term*	*A local government is likely to not be sufficiently maintaining, replacing or renewing existing infrastructure assets as they are being depreciated, which may create a 'renewals backlog', resulting in a reduction in the service levels and/or useful lives previously expected.* *This will likely create a burden on future ratepayers, who will either incur financial costs to restore the asset or a convenience cost from not being able to utilise the asset (e.g. road closures due to excessive pot holes)*

Note

The Department has adopted the broader Capital Expenditure on Replacement / Renewal of <u>all assets</u> as the numerator. The inclusion of non-infrastructure assets in the numerator is unlikely to have a material impact in most instances. Where the inclusion of non-infrastructure assets is material and / or a local government can clearly substantiate the split between asset classes, the narrower numerator of Capital Expenditure on Replacement / Renewal of <u>infrastructure assets</u> must be used.

Infrastructure Assets

Although the distinction between Infrastructure and Non-Infrastructure Assets is not directly relevant to the Asset Sustainability Ratio in its current form, the following information is presented to assist local governments in the development of long-term financial management strategies.

> ***Infrastructure Assets*** *refer to those significant, long-life assets that provide ratepayers with access to social and economic facilities and services.*

The following items are not considered Infrastructure Assets:

- land, major plant, computer network, and leased bus refuelling station;
- plant and equipment (including office furniture and equipment);
- ferries and motor vehicles (including buses); and
- heritage collection and artworks.

Examples of Infrastructure Assets include:

- water and sewerage treatment plants;
- roads, bridges and drainage (including flood mitigation networks);
- buildings and land improvements (including leasehold improvements);
- landfills and dump sites;
- parks, gardens, pools and sporting fields;
- wharves, jetties, pontoons and coastal infrastructure; and
- airports, and other community assets.

Note

Some local governments combine Land and improvements as a single line item on the face of the Statement of Financial Position. It is important to ensure that in such cases, capital expenditure in relation to Land is excluded from Asset Sustainability Ratio calculations.

***Depreciation Expense** refers to the systematic allocation of the depreciable amount (gross value less estimated residual value) of an asset over its useful life. Depreciation should be calculated in accordance with the Australian Accounting Standards.*

Note

Some local governments combine Depreciation and Amortisation as a single line item on the face of the Statement of Comprehensive Income. Whilst Amortization is not likely to be material, it is important to ensure that only the value of Depreciation Expenditure is included as the denominator of the Asset Sustainability Ratio. The Case Study in this Guideline provides an illustrative example.

Where a local government uses Capital Expenditure on Replacement / Renewal of infrastructure assets as the numerator for the calculation, the Depreciation on those infrastructure assets only must be used as the denominator for the Asset Sustainability Ratio to maintain the focus on infrastructure assets. Where Capital Expenditure on Replacement / Renewal on all assets is used as the numerator, Depreciation Expenditure on all assets must be used as the chosen denominator.

***Capital Expenditure on Replacement of Assets (Renewals)** refers to expenditure on existing assets to return the assets to their original service potential (or useful life) while satisfying current construction and required standards. Such expenditure is required periodically to reinstate existing service potential, and may reduce operating and maintenance costs. Capital Works-in-progress and non-cash contributions in relation to existing assets are also included in this expenditure.*

Note

The Australian Accounting Standards currently do not require local governments to disclose “Capital Expenditure on Replacements Assets (Renewals)” in the financial statements. These figures must be obtained from the internal management accounting system.

The Department’s 2012-13 *Tropical Council Illustrative Financial Statements* provide a sample disclosure note encompassing “Capital Expenditure on Replacements of Assets (Renewals)” in the Property, Plant and Equipment Note (Note 18). To facilitate a more cost effective audit of the “Current year financial sustainability statement”, all Councils should disclose information on renewals in their annual financial statements in a similar manner. An extract of this disclosure note is included in the Case Study section of this Guideline.

Capital Expenditure on Upgrades vs. Renewals

> ***Capital Expenditure on Upgrades*** *refers to expenditure on existing assets that provides a higher level of service or increase the life of the asset beyond that which it had originally. Such expenditure could also increase future operating and maintenance expenditures.*

Capital Expenditure is considered to be "Upgrades" rather than "Renewals" where the expenditure results in a *substantial change in the nature of an asset* (as indicated by significant changes to service levels and useful life). Such expenditure is excluded from the Asset Sustainability Ratio (ASR) calculations.

Note

Any increase to asset life as a result of satisfying current construction and required standards are <u>not</u> considered "Upgrades".

In practice, the distinction between "Upgrades" and "Renewals" is not easily achieved. Projects to upgrade existing assets typically may involve a two-step process, comprising of:

- renewal of the existing asset; and
- upgrade of the existing asset.

The ability to separately and reliably identify renewal and upgrade components of a project to upgrade existing assets is dependant on the existence of robust asset management and project costing systems.

Important

Local governments must omit Capital Expenditure in relation to the upgrade of an existing asset, <u>unless</u> it can be demonstrated that the local government has robust systems and documentation in place to allow for the reliable calculation and separation of renewal and upgrade costs components.

This best illustrated in the example on the page following.

Example

Tropical Council has decided to undertake works of an existing section of a 2-lane highway connecting the Council to a neighbouring town. In undertaking these works, Council repairs the stretch of road, but also upgrades the asset to 4 lanes. Tropical Council has robust asset management systems in place and has maintained sufficient, detailed records of the project costs.

The capital expenditure incurred in this instance comprises of:

- Renewal of the 2 lane highway; and
- Upgrade to 4 lane highway.

Given that Council has the systems in place to be able to reliably calculate and substantiate costs for both the renewal and upgrade components, Council can calculate and include the Renewal component of the project costs in the ASR calculations of the relevant year.

Operating Surplus Ratio

Operating Surplus Ratio *(expressed as a percentage) is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.*

Formula	$$\frac{\text{Operating Result or Net Result (excluding Capital Items)}}{\text{Total Operating Revenue (excluding Capital Items)}}$$
Target	Between 0% and 10% per annum (on average over the long-term)

		What does this mean?
Higher than target	*> 10%* *on average over the* *long-term*	*Whilst expecting to generate substantial revenues can assist in offsetting past or future operating deficits, and fund proposed capital expenditure and/or debt repayments, the low level of operating expenses compared to operating revenues could also indicate that a local government is providing levels of service below that expected by ratepayers.*
Within target range	*> 0% and* *< 10%* *on average over the* *long-term*	*A local government is expecting to generate healthy levels of revenues that can be used to offset past or future operating deficits or to fund proposed capital expenditure and/or debt repayments, and is less likely to compromise the levels of service expected by ratepayers.*
Below target range **(negative ratio)**	*< 0%* *on average over the* *long-term*	*A local government is expecting to not be able to generate sufficient revenues that can cover operating expenses and offset past or future operating deficits or act as a funding source for proposed capital expenditure and/or debt repayments. The percentage indicates the percentage increase in Operating Revenues needed to achieve a break-even position.*

Operating Result *or* ***Net Result (excluding Capital Items)*** *refers to the surplus / deficit from operating activities, as presented in the income and expenditure statement. This excludes capital items.*

Formula:

[Net Result - (Capital Revenues + Capital Income) + Capital Expenses]

Alternative formula:

[Recurrent revenue (adjusted for any Capital items deemed to be operational revenue) less Recurrent expenses (adjusted for any Capital items deemed to operational expenses)]

Total Operating Revenue *refers to the sum of all operating revenue as presented in the income and expenditure statement less any capital grants and donations and contributions for non-current asset acquisitions that have been recognised as operating revenue.*

Formula:

[Total Income - (Capital Revenues + Capital Income)]

Some examples of Operating revenues include:

- Rates and utilities charges (less discounts and remissions)
- Contract and recoverable works
- Profit/loss from joint ventures or associates
- Gain or loss on sale on land (inventory held for sale)

Capital Items

Capital items consist of:

- Capital Revenues
- Capital Income
- Capital Expenses

Capital Revenues *refer to amounts received from transactions with external parties that do not form part of a local government's operating business activities and are in connection with non-financial assets.*

Some examples of Capital revenues include:

- State Government Grants and Subsidies to fund capital expenditure
- Contributions in connection to finance lease assets recognised in respect of newly built houses
- Other Contributions in relation to infrastructure assets

Capital Income *refers to accounting gains in relation to disposal of non-current assets (including plant, property and equipment), discount rate adjustments to refuse restoration provisions, non-cash contributions and revaluations of investment property and property, plant and equipment.*
Capital Expenses *refer to accounting losses incurred in the acquisition or significant improvement of physical and intangible assets. This excludes amounts relating to routine operating maintenance, repair costs and minor renewals to maintain operating capacity.*

Some examples of Capital Expenses include:

- Loss on impairment
- Loss on discount rate adjustment to refuse restoration provision or quarry rehabilitation liability
- Revaluation decrement of infrastructure asset in excess of balance held in asset revaluation surplus
- Loss on disposal of property, plant and equipment
- Loss on disposal of discontinued operations
- Loss on transfer of assets via finance lease
- Discounts on Infrastructure Charges

Note

- Negative operating surplus (i.e. operating deficit) in some periods is acceptable and not an indication of long-term sustainability issues (e.g. as a result of flood impacts).
- For financial sustainability the focus is on results, on average, over the long-term

Net Financial Liabilities Ratio

Net Financial Liabilities Ratio *(expressed as a percentage) is an indicator of the extent to which the net financial liabilities of a local government can be serviced by its operating revenues.*

Formula	$$\frac{Total\ Liabilities - Current\ Assets}{Total\ Operating\ Revenue (excluding\ Capital\ Items)}$$
Target	< 60% per annum (on average over the long-term)

Context for selected sustainability target

The two predominant factors considered by the Department in establishing a sustainability target of "below 60%" for the Net Financial Liabilities Ratio were:

- reliance on rate revenues; and
- optimal local government capital structures.

Ensuring that adequate levels of rates revenues are raised over the long-term is a key determinant in the long-term financial sustainability of a local government. The *National Financial Sustainability Study of Local Government* report commissioned by the Australian Local Government Association in November 2006, asserts that across local governments in Australia, the reliance on rates revenues varies between 10% and 60% of a local government's total revenues. Previous internal studies by the Department have also concluded that on average, 60% of total revenues represents the upper limit of reliance on rate revenues.

In April 2000, the former Queensland Department of Communication and Information, Local Government, Planning and Sport (in conjunction with the Local Government Association of Queensland Inc.) released the *Full Cost Pricing Guidelines - Practical Guide*. This Guideline suggested that where local governments wish to establish a capital structure similar to that seen in the private sector, that they adopt debt-to-equity ratios of 50:50 or 60:40.

It is for these reasons that the Department has established the sustainability target for the Net Financial Liabilities Ratio as below 60%.

Note

High average Net Financial Liabilities ratio projections over the long-term are typically indicative of a local government that is undertaking / has undertaken significant infrastructure projects. Whilst some local governments may not achieve the recommended target for Net Financial Liabilities Ratio on average over the long-term, this does not necessarily indicate that a local government is likely to be unsustainable over the long-term. In such cases, well-managed local governments with robust financial management systems and the ability to service current and projected debt levels, can maintain long-term sustainability and average Net Financial Liabilities ratio projections over the long-term that exceed the recommended target. Other credit orientated ratios such as Debt, Interest cover and Debt service cover ratios can be used to supplement the Net Financial Liabilities Ratio to support such instances.

Assessments of sustainability involve the consideration of all the sustainability measures over the long-term, as opposed to viewing a single measure in isolation. Sustainability assessments also necessitate the review of a local government's adopted policies, long-term financial forecasts and asset management plans.

Capital Items *see previous section for explanation.*
Total Operating Revenue *see previous section for explanation.*

		What does this mean?
Higher than target	*> 60%* *on average over the* *long-term*	*A local government has total financial liabilities that exceed current assets, above recommended levels. This means that the local government likely has limited capacity to increase its loan borrowings and may be becoming over-burdened with debt.*
Within target range	*> 0% and* *< 60%* *on average over the* *long-term*	*Whilst this means net financial liabilities exceed current assets and must be serviced using available operating revenues, the local government remains within recommended levels for sustainability.*
Below target range **(negative ratio)**	*< 0%* *on average over the* *long-term*	*A local government has current assets that exceed total liabilities and appears to have the capacity to increase its loan borrowings if required.*

4. Case Study

Background to Tropical Council Illustrative Financial Statements

Local governments are required each year to prepare general purpose financial statements that comply with local government legislation and the Australian Accounting Standards. To assist with this, the Department prepares a set of example statements each year entitled *Tropical Council Illustrative Financial Statements* (Tropical). These statements are updated each year to reflect new and amended Australian Accounting Standards and other relevant legislative requirements.

The 2012-13 refresh of Tropical will also provide sample disclosures and other guidance to assist local governments to comply with the new sustainability disclosures required under the amended Acts and new Regulations.

A copy of the latest Tropical can be found on the Departments website.

Extracts from the 2012-13 Tropical will be used in this Guideline to provide worked examples and guidance on the calculation of the *relevant measures of sustainability*. Although the Acts and Regulations require local governments to provide a current year sustainability statement (based on the current year financial statements) and a long-term sustainability statement together with the relevant financial statements, they are not required to release the forward projections upon which the long-term sustainability statement is prepared. Accordingly, the worked examples will focus on only calculating the *relevant measures of sustainability* using the consolidated figures for the 2012-13 financial year. For ease of reference, each of the key inputs used in these measures will be marked with a unique letter on the extracted financial statements on the pages following.

Tropical Council Financial Statement Extracts

Tropical Council
Statement of Comprehensive Income
For the year ended 30 June 2013

		Consolidated		Council		
		2013	2012	2013	2012	
	Note	$	$	$	$	
Income						
Revenue						
Recurrent revenue						
Rates, levies and charges	3(a)	7,481,626	7,303,037	7,481,626	7,303,037	
Fees and charges	3(b)	2,301,193	2,064,321	501,193	564,321	
Rental income	3(c)	10,400	10,400	10,400	10,400	
Interest received	3(d)	301,446	285,595	350,046	336,895	
Sales revenue	3(e)	640,000	530,000	640,000	530,000	
Profit from investments	3(f)	54,286	36,571	54,286	36,571	
Other income	3(g)	988,776	973,714	1,091,450	1,080,914	
Grants, subsidies, contributions and donations	4(a)	3,230,845	1,523,121	3,230,845	1,523,121	
		15,008,572	12,726,759	13,359,846	11,385,259	A
Capital revenue						
Grants, subsidies, contributions and donations	4(b)	1,237,578	347,529	1,237,578	347,529	B
Total revenue		16,246,150	13,074,288	14,597,424	11,732,788	
Capital income	5	481,183	127,690	488,800	127,690	C
Total income		16,727,333	13,201,978	15,086,224	11,860,478	D
Expenses						
Recurrent expenses						
Employee benefits	6	(5,879,043)	(5,194,161)	(4,628,499)	(4,294,161)	
Materials and services	7	(5,305,461)	(4,206,662)	(4,985,460)	(3,896,663)	
Finance costs	8	(833,325)	(1,039,951)	(833,325)	(1,039,951)	
Depreciation and amortisation	9	(3,761,073)	(3,994,983)	(3,725,712)	(3,961,631)	E
		(15,778,902)	(14,435,757)	(14,172,996)	(13,192,406)	
Capital expenses	10	(2,374,723)	(348,348)	(2,374,723)	(348,348)	F
Total expenses		(18,153,625)	(14,784,105)	(16,547,719)	(13,540,754)	
Net result		(1,426,292)	(1,582,127)	(1,461,495)	(1,680,276)	G

Tropical Council
Statement of Financial Position
as at 30 June 2013

		Consolidated			Council			
		2013	**2012**	**1 July 2011 ***	**2013**	**2012**	**1 July 2011 ***	
	Note	**$**	**$**	**$**	**$**	**$**	**$**	
Current assets								
Cash and cash equivalents	11	5,735,156	4,276,522	4,131,951	5,360,330	3,934,878	3,862,951	
Trade and other receivables	12	1,382,910	858,062	1,018,744	1,428,054	903,206	1,147,444	
Inventories	13	233,957	450,006	452,000	233,957	450,006	452,000	
Other financial assets	14	20,090	-	-	20,090	-	-	
		7,372,113	5,584,590	5,602,695	7,042,431	5,288,090	5,462,395	
Non-current assets held for sale	15	90,000	-	-	90,000	-	-	
Total current assets		7,462,113	5,584,590	5,602,695	7,132,431	5,288,090	5,462,395	**H**
Non-current assets								
Trade and other receivables	12	150,000	150,000	183,780	870,000	915,000	910,050	
Other financial assets	14	512,991	-	-	512,991	-	-	
Investments	16	1,015,715	972,849	955,000	2,095,715	2,052,849	2,035,000	
Investment property	17	490,400	420,000	420,000	490,400	420,000	420,000	
Property, plant and equipment	18	74,048,232	78,305,851	80,031,191	71,991,446	76,289,815	78,068,791	
Intangible assets	19	21,000	24,000	27,000	21,000	24,000	27,000	
Total non-current assets		76,238,337	79,872,700	81,616,971	75,981,551	79,701,664	81,460,841	
Total assets		83,700,450	85,457,290	87,219,666	83,113,982	84,989,754	86,923,236	
Current liabilities								
Trade and other payables	20	844,742	1,237,942	1,124,243	844,742	1,237,943	1,124,243	
Borrowings	21	2,715,347	1,025,803	1,072,716	2,715,347	1,025,803	1,072,716	
Provisions	23	183,409	38,000	28,000	183,409	38,000	28,000	
Other	24	350,821	-	-	350,821	-	-	
Total current liabilities		4,094,319	2,301,745	2,224,959	4,094,319	2,301,746	2,224,959	
Non-current liabilities								
Trade and other payables	20	84,027	64,885	57,893	84,027	64,885	57,863	
Borrowings	21	7,437,054	11,411,917	11,919,957	7,437,054	11,411,917	11,919,957	
Provisions	23	1,376,377	1,814,460	1,691,129	1,376,377	1,814,460	1,691,129	
Total non-current liabilities		8,897,458	13,291,262	13,668,979	8,897,458	13,291,262	13,668,949	
Total liabilities		12,991,777	15,593,007	15,893,938	12,991,777	15,593,008	15,893,908	**I**
Net community assets		70,708,673	69,864,283	71,325,728	70,122,205	69,396,746	71,029,328	
Community equity								
Asset revaluation surplus	25	5,804,509	3,533,826	3,413,144	5,565,793	3,378,838	3,331,144	
Retained surplus/(deficiency)	26	64,904,165	64,182,933	65,669,524	64,556,413	63,870,384	65,455,124	
Reserves	28	-	2,147,524	2,243,060	-	2,147,524	2,243,060	
Total community equity		70,708,674	69,864,283	71,325,728	70,122,206	69,396,746	71,029,328	

Notes to the Tropical Council Financial Statement Extracts

Depreciation and Amortization Note (Extract)

9	**Depreciation and amortisation**					
	Depreciation of non-current assets					
	Land improvements		849	914	849	914
	Buildings		101,875	89,029	90,626	78,213
	Major plant		146,434	127,546	146,434	127,546
	Other plant and equipment		264,952	175,445	240,840	152,909
	Road, drainage and bridge network		2,690,151	3,029,011	2,690,151	3,029,011
	Water		392,976	404,468	392,976	404,468
	Sewerage		148,259	148,259	148,259	148,259
	Other infrastructure assets		12,577	17,311	12,577	17,311
		18	3,758,073	3,991,983	3,722,712	3,958,631
	Amortisation of intangible assets					
	Software		3,000	3,000	3,000	3,000
	Total depreciation and amortisation	19	3,761,073	3,994,983	3,725,712	3,961,631

J

K

L

Property, Plant and Equipment Note (Extract)

AASB 116.73

18 Property, plant and equipment

Consolidated - 30 June 2013	Note	Land and improvements	Buildings	Major plant	Other plant and equipment	Road, drainage and bridge network	Water	Sewerage	Other infrastructure assets	Work in progress	Total	
Basis of measurement		Fair Value	Fair Value	Fair Value	Cost	Fair Value	Fair Value	Fair Value	Fair Value	Cost		
Asset values		$	$	$	$	$	$	$	$	$	$	
Opening gross value as at 1 July 2012		4,050,985	5,722,838	2,211,181	2,254,214	78,630,365	23,086,180	7,070,212	186,203	762,102	123,974,280	
Additions*		-	30,435	301,428	120,976	-	-	-	44,117	1,300,258	1,797,214	
Disposals	5	(113,200)	(2,826,153)	(154,210)	(62,197)	-	(2,332,641)	-	-	-	(5,488,401)	
Revaluation adjustment to asset revaluation surplus	25	110,250	42,618	-	-	1,025,511	(30,195)	-	-	-	1,148,184	
Revaluation adjustment to income	5	-	-	-	-	314,214	-	-	-	-	314,214	
Assets classified as held for sale	15	(100,000)	-	-	-	-	-	-	-	-	(100,000)	
Assets transferred to investment property	17	(14,400)	-	-	-	-	-	-	-	-	(14,400)	
Transfers between classes			-	-	-	412,584	803,572	-	-	(1,216,156)	-	
Closing gross value as at 30 June 2013		3,933,635	2,969,738	2,358,399	2,312,993	80,382,674	21,526,916	7,070,212	230,320	846,204	121,631,091	
Accumulated depreciation and impairment												
Opening balance as at 1 July 2012		6,076	1,813,032	659,845	1,130,143	30,527,153	7,929,207	3,511,411	91,562	-	45,668,429	
Depreciation provided in period	9	849	101,875	146,434	264,952	2,690,151	392,976	148,259	12,577	-	3,758,073	
Depreciation on disposals	5	-	-	(26,107)	(85,449)	-	(612,320)	-	-	-	(723,876)	M
Revaluation adjustment to asset revaluation surplus	25	-	646	-	-	(1,104,603)	(15,810)	-	-	-	(1,119,767)	
AASB 136.126 Impairment adjustment to asset revaluation surplus	25	-		-	-	-	-	-	-	-	-	
Impairment adjustment to Income	10	-		-		-	-	-	-	-	-	
Assets transferred to investment property	17	-	-	-	-	-	-	-	-	-	-	
Transfers between classes		-	-	-	-	-	-	-	-	-	-	
Accumulated depreciation as at 30 June 2013		6,925	1,915,553	780,172	1,309,646	32,112,701	7,694,053	3,659,670	104,139	-	47,582,859	

Consolidated book value as at 30 June 2013	3,926,710	1,054,185	1,578,227	1,003,347	48,269,973	13,832,863	3,410,542	126,181	846,204	74,048,232
Residual value	3,921,610	800,000	453,970	78,000	-	-	-	-	-	-
Range of estimated useful life in years	Land: Not depreciated. Improvements: 7 - 40	40 - 100	12	2 - 20	5 - 100	20 - 80	20 - 60	20 - 40	-	-

Current-year financial sustainability statement

Additions comprise:

	$	$	$	$	$	$	$	$	$	$	
Renewals			162,450	75,200					765,000	1,002,650	
Other additions		30,435	138,978	45,776				44,117	535,258	794,564	
											N
Total additions		30,435	301,428	120,976				44,117	1,300,258	1,797,214	
	-	-	-	-	-	-	-	-	-	-	

Illustrative calculations

Asset Sustainability Ratio Worked Example

As the Australian Accounting Standards currently do not require local governments to disclose “Capital Expenditure on Replacements of Assets (Renewals)” in the financial statements (see Section 3), Tropical for 2012-13 provides a sample disclosure note on “Capital Expenditure on Replacements of Assets (Renewals)” in the Property, Plant and Equipment Note (Note 18). An extract of this disclosure note has been included in the previous section.

For the purposes of the worked example, it will be assumed that for the 2012-13 financial year, Tropical Council’s “Capital Expenditure on Replacements of Assets (Renewals)” was $1,002,650.

Formula	$\dfrac{\textit{Capital Expenditure on Replacement of Assets (Renewals)}}{\textit{Depreciation Expenditure}}$
Target	> 90% per annum (on average over the long-term)

Step 1: Obtaining the inputs

Input	**Value**	**Tropical Council Financial Statements Reference**
Capital Expenditure on Replacement of Assets (Renewals)	*$1,002,650*	**N**
Depreciation and Amortization Expenditure	*$3,761,073*	**E (or L)**
Amortization Expenditure	*$3,000*	**K**

Step 2: Calculating the Depreciation Expenditure only

= Depreciation and Amortization Expenditure - Amortization Expenditure

= E - K

= $3,761,073 - $3,000

= $3,758,073

Note

This step is only necessary in instances where a Council discloses Depreciation and Amortization as a combined line item on the face of the Statement of Comprehensive Income (as is the case with Tropical). This figure is the same as reference **J** from the Tropical Council Financial Statement Extracts.

Step 3: Calculating the Asset Sustainability Ratio

$$= \frac{Capital\ Expenditure\ on\ Replacement\ of\ Assets\ (Renewals)}{Depreciation\ Expenditure}$$

$$= \frac{N}{\$3{,}758{,}073} = \frac{\$1{,}002{,}650}{\$3{,}758{,}073} = \mathbf{26.68\%}$$

What this indicates	Should Tropical Council continue to not adequately invest in renewing / maintaining its infrastructure assets (as in the 2012-13 financial year) on average over the medium to long-term, Council may encounter a reduction in the asset's service levels and/or useful lives previously expected. This will likely create a burden on future ratepayers, who will either incur financial costs to restore the asset or a convenience cost from not being able to utilise the asset (e.g. road closures due to excessive pot holes).

Operating Surplus Ratio Worked Example

Operating Surplus Ratio Formula	$$\frac{\textit{Operating Result or Net Result (excluding Capital Items)}}{\textit{Total Operating Revenue(excluding Capital Items)}}$$
Net Result (excl. Capital Items) Formula	[Net Result - (Capital Revenues + Capital Income) + Capital Expenses]
Target	Between 0% and 10% per annum (on average over the long-term)

Step 1: Obtaining the inputs

Input	Value	Tropical Council Financial Statements Reference
Net Result (inclusive of Capital Items)	*-$1,426,292*	**G**
Capital Revenues	*$1,237,578*	**B**
Capital Income	*$481,183*	**C**
Total Income	*$16,727,333*	**D**
Capital Expenses	*-$2,374,723*	**F**

Step 2: Calculating Operating Result or Net Result (excl. Capital Items)

= [Net Result - (Capital Revenues + Capital Income) + Capital Expenses]

= [G - (B + C) + F]

= [-$1,426,292 - ($1,237,578 + $481,183) + $2,374,723]

= -$770,330

Step 3: Calculating Total Operating Revenue

= [Total Income - (Capital Revenues + Capital Income)]

= [D – (B + C)]

= $15,008,572

Note

The above calculation has been provided for ease of reference a "Total Operating Revenue" is not disclosed as a separately identified line item in Tropical. This figure is the same as reference **A** from the Tropical Council Financial Statement Extracts.

Step 4: Calculating Operating Surplus Ratio

$$= \frac{\textit{Operating Result or Net Result (excluding Capital Items)}}{\textit{Total Operating Revenue(excluding Capital Items)}}$$

$$= \frac{-\$770{,}330}{\$15{,}008{,}572} = \mathbf{-5.13\%}$$

What this indicates	Should Tropical Council continue to generate operating deficits (as in the 2012-13 financial year) on average over the medium to long-term, Council may be unable to deal with unexpected financial shocks in the future without needing to significantly increase rates and/or undertake significant borrowings or reductions in capital expenditure programs.

Net Financial Liabilities Ratio Worked Example

Formula	$$\frac{Total\ Liabilities - Current\ Assets}{Total\ Operating\ Revenue(excluding\ Capital\ Items)}$$
Target	< 60% per annum (on average over the long-term)

Step 1: Obtaining the inputs

Input	Value	Tropical Council Financial Statements Reference
Total Liabilities	*$12,991,777*	**I**
Current Assets	*$7,462,113*	**H**
Total Income	*$16,727,333*	**D**
Capital Revenues	*$1,237,578*	**B**
Capital Income	*$481,183*	**C**

Step 2: Calculating Total Operating Revenue

= [Total Income – (Capital Revenues + Capital Income)]

= [D – (B + C)]

= $15,008,572

Note

The above calculation has been provided for ease of reference a “Total Operating Revenue” is not disclosed as a separately identified line item in Tropical. This figure is the same as reference **A** from the Tropical Council Financial Statement Extracts.

Step 3: Calculating the Net Financial Liabilities Ratio

$$= \frac{I - H}{\$15{,}008{,}572}$$

$$= \frac{\$12{,}991{,}777 - \$7{,}462{,}113}{\$15{,}008{,}572} = \mathbf{36.84\%}$$

What this indicates	For the 2012-13 financial year, it appears that Tropical Council has a healthy balance of current assets and operating revenues that will ultimately service the total liabilities. A determination on whether Council has the capacity to support additional borrowings in future years cannot be ascertained from viewing the ratio for a single year. For this purpose, forward projections of Net Financial liabilities Ratios are needed.

5. Future considerations

Asset Renewal Funding Ratio

It is proposed that in the future, the Asset Renewal Funding ratio will be included in the Regulations as a *relevant measure of sustainability* to act as an additional indicator to measure infrastructure capital sustainability.

The Asset Renewal Funding Ratio considers the net present value of planned capital expenditures on infrastructure asset renewals over 10 years (per the long-term financial forecast) and the net present value of the required capital expenditures on infrastructure asset renewals over the same period (per the long-term asset management plan). This represents the extent to which the required capital expenditures on renewals per the asset management plans have been incorporated into the 10 year financial model of the Local Government.

The ratio also enables an assessment of a local government's capacity to fund the projected infrastructure asset renewals and thus continue to provide existing levels of asset based services in the future without needing to revise projections by increasing projected operating income or net financial liabilities, or by reducing operating expenditures.

However, there are a number of challenges in implementing this measure. Chief among these is the need for all infrastructure assets across local governments to be managed in accordance with formal asset management plans and the selection of appropriate discount rates.

6. Definitions

The following definitions have been provided to assist in the development of long-term financial management strategies.

Term	*Definition*
Accumulated depreciation	The sum of all depreciation charged against an asset since acquisition up to the current date.
Asset Sustainability Ratio	An approximation of the extent to which the infrastructure assets managed by a local government are being replaced as they reach the end of their useful lives.
Capital expenditure on the replacement of infrastructure assets (renewals)	Institute of Public Works Engineering Australia (IPWEA) definition—expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure, as it reinstates existing service potential and may reduce operating and maintenance costs, however may include expenditure necessary to satisfy current construction and required standards.
Capital expenditure on the upgrade of existing infrastructure assets (upgrades)	IPWEA definition—expenditure that enhances an existing asset to provide a higher level of service or increase the life of the asset beyond that which it had originally. It increases future operating and maintenance expenditures.
Capital expenditure to expand the infrastructure asset base (expansion)	IPWEA definition—expenditure that extends an existing asset, at the same standard that is currently enjoyed by residents, to a new group of users. It is discretionary expenditure which increases future operating and maintenance costs because it increases the Local Government's asset base.
Capital expenditure to expand the infrastructure asset base (new)	IPWEA definition—expenditure that creates a new asset providing a new service to a community that did not exist beforehand. As it increases service potential, it will increase future operating and maintenance costs.
Capital grants	Grant funding received or receivable from a third party that relates to a capital project.
Capital income	Accounting gains in relation to disposal of non-current assets (including plant, property and equipment), discount rate adjustments to refuse restoration provisions, non-cash contributions and revaluations of investment property and property, plant and equipment.
Capital items	Consist of Capital revenues, Capital income and Capital expenses

Term	*Definition*
Capital revenues	Amounts received from transactions with external parties that do not form part of a local government's operating business activities and are in connection with non-financial assets.
Capital expenses	Accounting losses incurred in the acquisition or significant improvement of physical and intangible assets. This excludes amounts relating to routine operating maintenance, repair costs and minor renewals to maintain operating capacity.
Current assets	All current assets as identified in the balance sheet, including cash and cash equivalents, receivables, other financial assets and current inventories.
Current liabilities	All current liabilities as identified in the balance sheet, including payables, leave entitlements, other current liabilities and the current amounts due for loan repayments.
Depreciation expense	The systematic allocation of the depreciable amount (gross value less estimated residual value) of an asset over its useful life. Depreciation should be calculated in accordance with the Australian Accounting Standards.
Financial capital	The productive capacity provided by the working capital of the local government.
Financially sustainable	A local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long-term.
Gross current replacement cost of infrastructure assets	The current value of the infrastructure assets, expressed in terms of current market value—that is, the cost to replace the existing asset in the current market.
Gross interest expense	Refers to the cost of borrowing money. It is the price the lender charges the borrower for the use of the lender's money. Gross interest expense means, for a period, all interest and amounts in the nature of interest (such as the QTC administration fee) paid or payable during that period. This includes interest payable to Queensland Treasury Corporation on term debt, working capital facilities and re-draw arrangements, and other parties interest payable on finance leases.
Gross interest revenue	Refers to the revenue earned from cash and cash equivalents investments. Gross interest revenue means, for a period, all interest earned on investments such as interest earned on monies invested in the Queensland Treasury Corporation Capital Guaranteed Cash Fund.
Infrastructure assets	Those significant, long-life assets that provide ratepayers with access to social and economic facilities and services. Examples include water and sewerage treatment plants, roads, bridges, drainage, buildings, airports, and other community assets.

Term	*Definition*
Infrastructure capital	The productive capacity provided by the significant asset classes of the local government that provide or support public services — e.g. roads, water and sewerage assets, drains, bridges, footpaths and public buildings. In a financial sense, the infrastructure capital is represented by the non-current assets and financing liabilities (debt financing and lease financing) of the local government.
Long term	A period of at least 10 years.
Net current assets	Current assets less current liabilities.
Net Financial Liabilities Ratio	An indicator of the extent to which the net financial liabilities of a local government can be serviced by its operating revenues.
Net interest expense	Interest and finance expenses less interest and investment revenues as disclosed in the Statement of Comprehensive Income.
Net result	The unadjusted surplus / deficit as presented in the Statement of Comprehensive Income.
Net present value of planned capital expenditures on renewals	The total of all capital expenditures on renewals in the forecast period included in the 10 year financial model, expressed in current year values.
Net present value of the required capital expenditures on renewals	The total of all required capital expenditures on renewals in the forecast period as indicated in the asset management plans or asset forecasts, expressed in current year values.
Operating Result	The surplus / deficit from operating activities, as presented in the income and expenditure statement. This excludes capital items.
Operating Surplus Ratio	An indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.
Own-source revenues	Those revenues that a local government has some degree of influence over. It is represented by total operating revenues less grants and subsidies.
Total debt service	Current year interest expense plus current year principal payments on debt.

Term	*Definition*
Total operating revenue	The sum of all operating revenue as presented in the income and expenditure statement less any capital grants and donations and contributions for non-current asset acquisitions that have been recognised as operating revenue.
Working capital	The capital used to undertake day-to-day operations. It is represented by the difference between current assets and current liabilities.
Written down value of infrastructure assets	The gross replacement cost of infrastructure assets less the accumulated depreciation on the infrastructure assets.

7. Abbreviations

Acts	Local Government Act 2009 and City of Brisbane Act 2010
COBA	City of Brisbane Act 2010
COBR	City of Brisbane Regulation 2012
LGA09	Local Government Act 2009
LGR12	Local Government Regulation 2012
National Frameworks	National Frameworks for Sustainability
Regulations	Local Government Regulation 2012 and City of Brisbane Regulation 2012
Tropical	2012-13 Tropical Council Illustrative Financial Statements

Attachment 1: Ten year financial forecasts

Minimum data set

The table below provides the minimum data set that ten year financial forecasts should typically contain.

Revenue items	• rates revenue, net of discount (shown separately) • utility charges, net of discount (shown separately) • contributions • grants and subsidies • interest revenue
Expense items	• human resource costs • depreciation expense • interest expense
Asset items	• distinct infrastructure classes • opening and closing balances with line item movements in asset base, including revaluations • capital expenditure, classified as either renewal or new/upgrade • cash and cash equivalents • receivables, net of doubtful debts (shown separately) • total current assets
Liability items	• human resource liabilities • tax liabilities • debt • payables • total current liabilities
Equity items	• accumulated surplus/deficit • community equity
Statistical items	• estimated annual growth in rate base • estimated annual population growth • employee numbers • average remaining term of debt • average remaining useful lives per major infrastructure asset class
Other items	• annual expected loan borrowings • annual expected loan repayments (principal and interest)

Construction

Years in the long-term financial forecast

- Year 0 of the model should be the historical financial period immediately preceding the current budget period and be based, where possible, on the audited general purpose financial reports of the local government.
- Year 1 of the model is the current budget period.
- Years 2 to 10 of the model are the subsequent financial periods to year 1.

Note

The long-term sustainability statement required to be included in the Annual Report utilises a different forecast period. Section 178(2) of the *Local Government Regulations 2012* and Section 170(2) of the *City of Brisbane Regulations 2012*, specify that the forecast period consists of:

- current year audited actual financial data as Year 1
- 9 forward projections for Years 2 to 10.

A sample long-term sustainability statement is available in Tropical.

Supporting documents and underlying assumptions

- Summary data only appears on the face of the model, with all supporting data provided in schedules or linking forecasts.
- A schedule of asset management plans is to be attached to the model. The schedule indicates the extent to which asset management plans have been developed for each of the significant infrastructure asset classes.
- In developing a long-term financial forecast, there will be a number of important underlying assumptions being made. All assumptions should be documented and should form part of the long-term financial forecast.
- All assumptions should be subject to sensitivity testing as part of the forecast development and review process. Sensitivity testing should be targeted at those items that represent the greatest risk to the local government.
- In developing the long-term financial forecast, the accounting policies and accounting estimates identified in Note 1 ‘Statement of Significant Accounting Policies’ of the general purpose financial statements of the local government should be used.

Local Government long-term financial forecast model template

Queensland Treasury Corporation (QTC) provides a long-term financial forecast model template that local governments can use as the basis for their respective ten year financial forecast. QTC can also provide additional guidance on the construction and content of long-term financial forecasts.

Additional references

Additional references that provide support to Local Governments in developing financial forecasts and establishing and interpreting the measures of sustainability:

- National frameworks for sustainability and enhanced national frameworks for sustainability (www.aclg.gov.au/meetings/ACLG_annual/files/asset_financial_management.pdf)
- IPWEA International Infrastructure Management Manual
- IPWEA Australian Infrastructure Financial Management Guidelines
- South Australian Local Government Financial Management Group Financial Management Framework (www.lga.sa.gov.au)
- The Department's Tropical Council Illustrative Financial Statements

Queensland Treasury Corporation contact details

Queensland Treasury Corporation

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P: 1800 641 057

Attachment 2: Sustainability requirements per the Local Government Act 2009, City of Brisbane Act 2010, Local Government Regulation 2012 and City of Brisbane Regulation 2012

The key sustainability requirements contained in the *Local Government Act 2009* (LGA09), *City of Brisbane Act 2010* (COBA), *Local Government Regulation 2012* (LGR12) and the *City of Brisbane Regulation 2012* (COBR) have been summarised below, under the following categories:

- Financial Sustainability
- Financial Management System
- Financial Forecasts
- Asset Management Plans
- Budget requirements
- Audit requirements
- Annual Report requirements
- Community Financial Report requirements

This summarised information is presented for informational purposes only and is not intended to replace the need for officers of local governments to be familiar with the Acts and Regulations.

Financial Sustainability

Section	Details
104(2) LGA09 103(2) COBA	Definition of 'financially sustainable local government'
169(5) LGR12 160(5) COBR	The 3 relevant measures of financial sustainability
169(9) LGR12 160(9) COBR	Reference to this Guideline

Financial Management System (FM system)

Section	Details
104(1) LGA09 103(1) COBA	Local governments must have a FM system in place.
104(5) LGA09 103(5) COBA	Required FM system components
104(6) & (7) LGA09	Requirement for regular review and update of financial policies

Financial Forecasts

Section	Details
171(1) LGR12 163(1) COBR	Definition of 'long-term financial forecast'
171(2) LGR12 163(2) COBR	Requirement for annual review and update of long-term financial forecast

Asset Management Plans (AMP)

Section	Details
167 LGR12 159 COBR	Requirement for long-term AMP to cover a period of at least 10 years
168 LGR12	Long-term AMP contents

Budget requirements

Section	Details
169 LGR12 160 COBR	Budget requirements
169(2)(a) LGR12 160(2)(a) COBR	Must include long-term financial forecast in budget process

Audit requirements

Section	Details
212(1) LGR12 202(1) COBR	Provide current year financial sustainability statement to Auditor-General for auditing
212(2) LGR12 202(2) COBR	Provide long-term financial sustainability statement to Auditor-General for information
212(5)(b) LGR12 202(5)(b) COBR	Mayor and CEO to include (as part of the Management Certificate) their opinion as to whether current year and long-term financial sustainability statements have been accurately calculated
178(2) LGR12 170(2) COBR	Long-term financial sustainability statement requirements

Annual Report requirements

Section	Details
176 LGR12 175 COBR	Must prepare current year and long-term financial sustainability statements each financial year
178(1) LGR12 170(1) COBR	Current year financial sustainability statement requirements
183(b) & (c) LGR12 175(b) & (c) COBR	Must include current year and long-term financial sustainability statements in Annual Reports

Community Financial Report requirements

Section	Details
179(2)(c) LGR12 171(2)(c) COBR	Include relevant measures of sustainability in Community Financial Report

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