

19. Forecast Financial Statements

Introduction

This piece covers the other side of the right debate - the three financial content areas in the LTCCP:

- forecast financial statements
- funding impact statements (FIS), and
- the statement concerning balancing of budget.

The FIS includes information that discloses revenue and financing mechanisms to be used and the indicative amounts to be produced by each mechanism.

Why are forecast financial statements so important?

The financial statements are the acid test of the sustainability of the package of service levels and policies that are contained elsewhere in the plan. The financials (in particular the rates requirement) will receive the most scrutiny of any aspect of the plan.

These statements along with the other requirements are the means you have to demonstrate to the community that you are managing their money prudently. Presenting these statements in a clear fashion, with appropriate context, is an important part of generating community interest and involvement in the plan.

How do forecast financial statements relate to the legislation?

Forecast financial statements must be prepared for each year of the LTCCP, and in accordance with generally accepted accounting practice (GAAP). Under the Act forecast financial statements are not required to include council controlled organizations, although GAAP requires that where a local authority chooses to produce its statements on a core council basis it must state its reasons for excluding other elements of the group.

The FIS is year by year disclosure of the revenue and financing mechanisms to be used by the local authority. Particular emphasis is given to the types of rates that will be used and the basis on which these will be assessed.

If the council is proposing not to set operating revenues at a level sufficient to cover operating expenses in any year covered by the LTCCP, then it is also required to include a statement on the balancing of the budget. That statement must disclose:

- the year or years in which the balanced budget requirement will not be observed
- the reasons for the non-observance and any matter taken into account, and
- the implications of the decision (for example, if service levels are expected to decline).

Where is the information sourced from?

AREA	INFORMATION SOURCES
Forecast financial statements	Financial modelling systems Asset management plans Cost of activity statements Significant forecasting assumptions CCO's Statements of Intent
Funding impact statement	Cost of activity statements Revenue and financing policy
Statement concerning balancing the budget.	Council resolution required under S 100(2) Revenue and financing policy

Who should prepare the forecast financial statements?

Finance personnel would be the principal preparers of this information, drawing on information provided by asset and activity managers (i.e. when summed the cost of activity statements should equal the Income and Expenditure Statement, and information in the Cost of Activity Statements should be consistent with the information in asset management plans).

A clarity and coherence check of the forecast financial statements and a consistency check with levels of service and the funding and financial policies are all 'must do' parts of quality assurance. Involvement of senior finance staff along with the project manager (and possibly some key activity managers) are important.

When should the forecast financial statements be prepared?

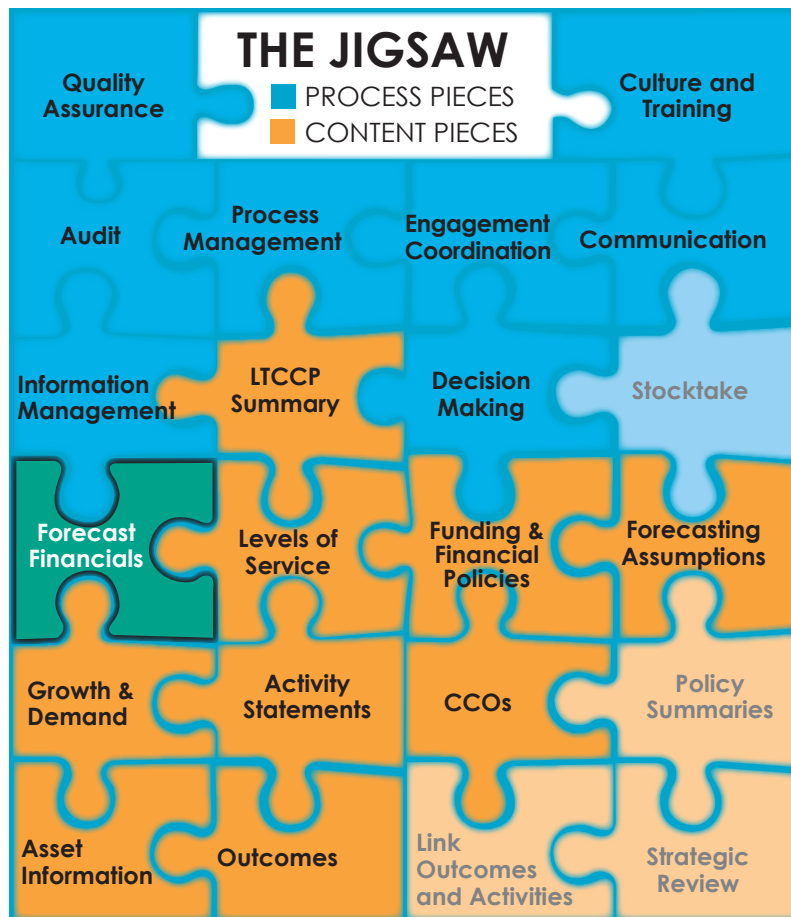
An initial 'cut' of the forecast financials should be prepared as soon as activity level budgets are available. This enables:

- the LTCCP project team and senior management to review them for overall coherence/strategy, and
- elected members to discuss tradeoffs between levels of service and cost.

Where should the forecast financial statements be presented?

- In 2006 most local authorities opted for a columnar format for forecast financial statements. This format appears to be most efficient way of presentation.
- The positioning of forecast financial statements in the LTCCP is an important presentational issue to consider. These statements are the culmination, or the summary of the financial content of the LTCCP and, as such, will be of interest to many readers. It is recommended that a graphical presentation of the statements are towards the front of the LTCCP, and there is a cross reference to the full forecast financial statements later in the LTCCP document.
- Any statement that may be needed for balancing of the budget could be best placed
 - adjacent to the forecast statement of financial performance
 - alongside significant forecasting assumptions.
 and referred to in the CEO's Foreword.

What other processes are linked with forecast financial statements?



What were the weaknesses apparent in the forecast financial statements in the 2006 LTCCPs?

No clear link from cost of service statements to the forecast statement of financial performance (i.e. either a direct link to the forecast statement of financial performance, or via a separate note to the accounts).

No clear links between financials and the revenue and financing policy.

Lack of clarity in treatment of some items, especially depreciation and non-activity specific revenues.

No clear message to the reader of the overall financial trends and funding demands, either through lack of graphs or lack of highlighting.

No clear discussion of financial strategy and rationale for its selection.

Not all financial statements had the minimum requirements of IFRS. For example core council financials were provided without any explanation as to why the consolidated statements were not made available.

What good practice information is available?

Audit New Zealand, (2006), *Model Financial Statements for 'Te Motu District Council' under IFRS*.

Office of the Auditor-General, (2004), *The Prudent Financial Management Requirements of the Local Government Act*.

Office of the Auditor-General, (2007), *Matters Arising from the 2006-16 Long-term Council Community Plans*. There some good examples of cost of services statements.

SOLGM, (2007), *The Good Practice Guide to Financial Management Under the Local Government Act* (to be released in November).