

A Brief Guide to the Long-Term Plan

What is the long-term plan for?

The long-term plan **provides a long-term focus to council decisions**. It helps both the council and the community see the long-term effects of decisions made today. For example, it is easy to keep rates down this year by putting off essential works like replacing bridges or footpaths. But the bridges and footpaths must still be replaced. Having a long-term plan makes the council and the community confront the issue of when are the bridges and footpaths going to be replaced? And how are we going to pay for that?

It also helps **integrate council decision-making**. Councils provide many different services, for example they provide parks and swimming pools, promote economic development, regulate land use and provide stormwater drainage. Having a long-term plan encourages councils to identify the linkages between these services and the trade-offs that have to be made between improving one service or another.

It promotes debate about what **community outcomes** the council is trying to achieve – what should the council do to promote the economic, environmental, cultural and social well-being of its district?

Finally, the long-term plan provides a base for **members of the community to have input into the councils decisions** and then hold the council **accountable** for its performance.

(See section 93(6) of the Local Government Act 2002)

What is new in the 2012 long-term plan?

Councils must prepare a long-term plan every three years. The next long-term plan must be produced in 2012. In 2010 the Government made changes to what must be included in the long-term plan. The changes are designed to make the plans more easily understood by and more useful to ratepayers.

The main changes were to:

- [Community outcomes](#);
- [Financial strategies](#);
- [Funding impact statements](#);
- [Group of activity statements](#); and
- [Reserve funds](#).

Each of these topics is explained more fully below.

What is in a long term plan?

A long-term plan contains:

- [Commentary on the “big picture”](#);
- [An audit report](#)
- [Financial information](#);
- [Information about council activities](#) – the services it provides;
- [Information about council-controlled organisations](#);
- [The significant forecasting assumptions used in developing the plan](#);
- [Information about Māori contribution to decision-making](#); and
- [Information about its assessment of water and sanitary services](#); and
- [Information about its waste management plan](#).

Commentary on the “big picture”

A long term plan must describe the **community outcomes** the council is trying to achieve for its district. The Local Government Act 2002 defines community outcomes as “the outcomes that a local authority aims to achieve in order to promote the social, economic, environmental, and cultural well-being of its district or region, in the present and for the future.”

In addition most long-term plans will have a **report** from the Mayor/Chairperson and/or Chief Executive that describes the major issues the council is facing and the reasons for proceeding with or deferring major projects.

Draft long-term plans may also contain a submission form for members of the public to use. As this is not required by law a variety of formats are used by different councils.

Audit Report

The Auditor-General audits long-term plans. The audit report provides the reader with an opinion on whether the plan meets all legal requirements and on how soundly based are the information and assumptions that have been used to develop the plan. Auditors are not allowed to comment on the merit of the proposals in the plan - it is up to the community to consider the proposals in the plan and whether they meet community needs.

Financial Information

Long-term plans contain a lot of financial information. The main items are:

1. a financial strategy;
2. financial statements;
3. revenue and financing policy;
4. a council funding impact statement;
5. information about reserve funds; and
6. a balanced budget statement.

Financial strategy

From 2012 councils must include a financial strategy in their long-term plan. The financial strategy has several components.

1. The first part is a description of the factors expected to significantly affect the council over the next ten years. Examples of the sorts of things a strategy might discuss are expected population growth and the need for new services caused by that, changes in land use, such as dairy farm conversions in rural areas, and the expenditure needed to replace aging pipes and treatment plants;
2. The second part is quantified limits on rates and council borrowing. These limits are not enforceable, but they provide a guide against which ratepayers can hold councils accountable for the decisions they make;
3. The third part is an assessment of the council's ability to maintain existing services and meet additional demands for services within the rates and debt limits it has set. This will help make clear the effect of the trade-offs the council is making between additional rates and borrowing and the provision of services to ratepayers;
4. The fourth part is the council's policy on giving securities for borrowing. Just as homeowners give a security over their home when they take out a mortgage, so councils generally give a security when they borrow. Usually the security is a charge over rates. This means that if the council fails to repay a loan, the person who has lent money to the council can charge a rate to ratepayers to recover their loan.
5. The fifth part is the council's objectives for holding investments and shares and its quantified targets for returns on those investments. Many councils own businesses or have investment funds. The financial strategy must clearly state why they have those investments and what financial return they expect to get from them. This enhances accountability to ratepayers for the performance of those investments.

Financial statements

Financial statements are prepared under generally accepted accounting practice (a set of rules that state how financial statements must be presented). They consist of:

- A **statement of financial position**, also known as a balance sheet. This is a snapshot of the council's assets and liabilities at a given date. This is where you will find out how much money your council has borrowed, how much money it has invested and what the companies it owns (like port companies) are worth.

- A **statement of comprehensive income**, also known as an income and expenditure statement or a profit and loss statement. This records the operating revenue and operating expenditure of the council for the financial year. This statement can be confusing to ratepayers because it does not include capital transactions, such as expenditure to purchase new assets. For example, the cost of building a new road will not be included in this statement.
- A **statement of changes in equity**. For a council usually this statement contains little information. In the case of a company it would show, for example, the funds raised from issuing new shares. However, councils rarely have transactions of this type.
- A **statement of cash flows**. Local authorities, along with all other government agencies in New Zealand account on an accrual accounting basis. Under accrual accounting there are items of income and expenditure that are not in the form of cash. For example, when a developer carries out a new subdivision, the roads, pipes and parks are transferred to the council to look after. The value of those items is included in the statement of comprehensive income as income, even though no cash changes hands. The statement of cash flows lets you see a picture of the cash moving in and out of the council's bank account.
- **Notes**. The notes contain additional detail that elaborate on the accounting statements listed above. They also contain the accounting policies the council has used in preparing its accounts.

Revenue and financing policy

The revenue and financing policy explains how council will pay for its expenditure. The policy must separately explain how **capital expenditure** – purchase of assets such as parks, or the replacement of assets such as replacing water and sewer pipes – will be paid for and how **operating expenditure** – paying staff salaries and day to day expenses such as road maintenance, - will be paid for.

The revenue and financing policy explains these things for each council activity. The revenue and financing policy contains a summary of the approach the council takes to funding services from rates.

Council Funding Impact Statement

The council funding impact statement has two parts. The first part is a detailed explanation of the council's rating system. This explains how each rate the council charges is calculated – for example, whether it is calculated on the land value of the property or the capital value of the property. If the rate only applies to some properties in the district, the funding impact statement should explain which properties the rate applies to.

The second part sets out for the whole council what the planned sources of funds are and what the planned applications of funds are for each of the ten years in the plan and for the previous year. An example is shown below, but with just one year's figures.

Name of council]: Funding impact statement for [period] (whole of council)

		(\$000)
Commentary	Sources of operating funding	
These are rates assessed on all properties in a district and may be used to fund any council activity	General rates, uniform annual general charges, rates penalties	24,831
Targeted rates are used to fund a particular activity or activities. They may be charged to every property in the district or to particular properties. For example, a sewer rate may be applied only to properties that can access the sewer system. The targeted rates for water supply excluded from this line are only those where meter is charged using water meters. Many councils use uniform charges per property for water supply rates and they are included in this line.	Targeted rates (other than a targeted rate for water supply)	17,226
Most subsidies councils receive for operating purposes are for road maintenance or the provision of public transport.	Subsidies and grants for operating purposes	2,345
Fees and charges include items like building and resource consent fees and admission fees to swimming pools. In this statement a targeted rate for water supply is limited to those cases where a council charges for water using water meters.	Fees, charges, and targeted rates for water supply	15,121
This includes interest on any funds a council has invested and dividends from any companies a council owns	Interest and dividends from investments	268
This is catch-all category to cover other sources of operating funding. However, these must be limited to sources of cash funding. Accounting practice records some items that are not in the form of cash as "income". These include the value of assets vested in councils by developers when they subdivide	Local authorities fuel tax, fines, infringement fees, and other receipts	1,823

		(\$000)
land, and in some cases increases in asset values arising simply from the revaluation of that asset. This confuses the underlying funding of the council and so those sources of income are excluded from the funding impact statement.		
	Total operating funding (A)	61,614
	Applications of operating funding	
This covers the council's wages and salaries bill and the costs it pays to purchase routine expenses for operations and maintenance – things like its power bill and the costs of its road maintenance contractor.	Payments to staff and suppliers	37,542
This is the cost of interest on council's debt.	Finance costs	5,688
This is a catch all category. It would include grants to community groups, and if your council had some taxable income, it would include its tax bill.	Other operating funding applications	566
	Total applications of operating funding (B)	43,796
Don't be surprised if there is large surplus here. If a council is using a significant amount of rates income to pay for capital expenditure (like road resealing or replacing pipes) this would result in a large operating surplus.	Surplus (deficit) of operating funding (A – B)	17,818
	Sources of capital funding	
These would usually be subsidies for road sealing or road improvements. They could also be subsidies for improvements to water supplies or sewage treatment and disposal systems.	Subsidies and grants for capital expenditure	2,679

		(\$000)
These are contributions charged to property developers to assist with the cost of new infrastructure that serves their development.	Development and financial contributions	420
One way to fund capital projects is to borrow so that the cost of the project is spread over the years ratepayers will benefit from the project. If this number is a negative number then it indicates that this year the council is paying off debt, rather than increasing it. Our example shows a council paying off debt.	Increase (decrease) in debt	(3,510)
A council's income and expenditure statement will only show the difference between what it sold an asset for and the value of the asset on its books. Hence if it had land worth \$1 million on its books and it sold it for \$1.25 million, it would show income of \$0.25 million in its income statement. Clearly the whole \$1.25 million is available to fund council activities, so the Funding Impact Statement shows the whole amount	Gross proceeds from sale of assets	1,250
Lump sum contributions are used quite rarely. When they have major projects, some councils give ratepayers the choice of making a "lump sum contribution" to the cost of the project. This is as an alternative to the council borrowing the full cost of the project and then contributing to the cost through rates until the borrowing is paid off.	Lump sum contributions	0
	Total sources of capital funding (C)	839
	Applications of capital funding	
Capital expenditure is expenditure to purchase new assets. This can range from things like replacement library books, to	Capital expenditure	

		(\$000)
new buildings, parks or infrastructure. Capital expenditure is to be split into the three categories below. To keep reporting simple, where a project is for more than one of these categories, it is to be included with the category that reflects the main purpose of the project.		
Additional demand is demand that arises from more people wanting to use the service or more properties being supplied with the service.	—to meet additional demand	4,574
Improving the level of service means giving a better service – for example, replacing a grass sports pitch with an artificial pitch so games are not cancelled because of bad weather.	—to improve the level of service	952
Replacing existing assets arises when assets reach the end of their useful life. Good examples are replacing library books or resealing roads.	—to replace existing assets	8,371
Councils sometimes set money aside for a specific purpose. This might be for unexpected expenditure like natural disasters or for planned asset replacement in the future. If this line has a negative number, then reserves are being reduced in that year.	Increase (decrease) in reserves	3,550
In addition to reserves, councils may hold investments. Most councils will have some cash investments and many will also have investments in companies they own. This line will show the increase or decrease in those investments.	Increase (decrease) of investments	1,210
	Total applications of capital funding (D)	18,657
	Surplus (deficit) of capital funding (C – D)	(17,818)
	Funding balance ((A – B) + (C – D))	0

Information about reserve funds

A reserve fund is defined as money set aside by a council for a particular purpose.

Councils must show in their long-term plan each reserve fund they have created and for each fund:

- The purpose of the fund – that is, what the fund is for;
- What activities the fund relates to;
- The opening balance of the fund, the total movements into the fund during the planning period, the total movements out of the fund during the planning period; and the closing balance.

There are different ways councils could show this information. They might put a separate section into their plan showing this all in one place. Alternatively, they might record each fund in the same place as the activities to which the fund relates, which could spread this information throughout the plan.

Balanced Budget Statement

The Local Government Act has a presumption that a “balanced budget” is financially prudent. However, a council may budget for an operating deficit. If it does that, it must include in the long-term plan a statement explaining its reasons for doing that, the matters it took into account and the implications of its decision.

Information about council activities

Each long-term plan must contain specific information about council activities. Councils are permitted to group their activities in their long-term plan. However, there are five services which must be shown separately if they provide them. These are:

- water supply;
- sewage treatment and disposal;
- stormwater drainage;
- flood protection and control works; and
- the provision of roads and footpaths.

The information provided is a mix of financial and non-financial information.

The non-financial information is:

- a list or description of the activities in the group;
- the reason for providing these services and the community outcomes to which they contribute;
- an outline of any significant negative effects that any activity in the group may have on the social, economic, environmental and cultural well-being of the local community,

- performance measures for major aspects of the activities provided and performance targets for those measures; and
- descriptions of any changes in the level of service being provided and the reason for those changes.

The financial information to be provided also takes the form of a funding impact statement, but just for the group of activities. It is similar to the whole council funding impact statement, but must also show:

- how much general rate income is allocated to fund the group of activities;
- the revenue and expenses from internal charges. For example, a council might charge the parks activity for the water it uses on sports grounds. In that case this would be a charge to the sports grounds activity and revenue for the water activity. This would not show in the whole council funding impact statement since the transaction was entirely internal to the council business. However, making this type of charge is important so that the public can see the full cost of providing sports grounds.

Where council borrows for a group of activities it does not have to borrow that money from outside the council. If the council has large reserves or investments, the Local Government Act permits the council to borrow “internally.” Hence adding up all the borrowing in the group of activity statements may not equal the borrowing figure in the whole council funding impact statement.

Information about council-controlled organisations

Council-controlled organisations (CCOs) cover a wide variety of organisations that council’s have an interest in. They may include businesses or not-for-profit activities and they can be quite large or quite small. Businesses could include, for example, council-owned contracting companies or bus companies. Not-for-profit activities could include economic development agencies or community trusts that run museums or local sports facilities.

A long-term plan must include the name of each CCO and of any subsidiary it has. For each CCO it must state:

- the council’s policies and objectives for owning and/or controlling the organisation;
- the nature and scope of the activities the CCO will provide; and
- the key performance targets and other measures by which the performance of the CCO will be judged.

Significant forecasting assumptions

A council cannot plan ten years ahead without making some major assumptions about what may or is likely to happen in its district. Each long-term plan will have a separate section setting out the assumptions the council has made. Where those

assumptions involve a high level of uncertainty, the plan is to provide an estimate of the effect of that uncertainty on the financial statements.

Development of Māori capacity to contribute to council decision-making processes

A long-term plan must state any steps the council intends to take to foster the development of Māori capacity to contribute to the decision-making processes of the council.

Assessments of sanitary and water services

City and district council's are required, from time to time, to carry out assessments of water services and other sanitary services within their district. Other sanitary services are sewerage and stormwater systems, public conveniences, cemeteries and crematoria.

The council must explain in its long-term plan any significant variation between the proposals in the long-term plan and its most recent assessment of sanitary and water services.

Waste management plan

City and district councils are required to prepare waste management and minimisation plans. The council must explain in its long-term plan any significant variation between the proposals in the long-term plan and its waste management and minimisation plan.