



Government
Services

Local Government Better Practice Guide

Financial Plan

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Acronyms

AAS	Australian Accounting Standards
BPG	Better Practice Guide
COVID-19	Coronavirus (COVID-19) Pandemic
DGS	Department of Government Services
FinPro	Local Government Finance Professionals
FTE	Full Time Equivalent
FY	Financial Year
FGRS	Fair Go Rates System
ISPRF	Integrated Strategic Planning and Reporting Framework
LGMFR	Local Government Model Financial Report
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
VAGO	Victorian Auditor-General's Office

Integrated Strategic Planning and Reporting Framework

Introduction

The *Local Government Act 2020* (the Act) introduced strategic planning principles for Victorian councils which include an integrated approach to planning, monitoring and performance reporting.¹ The Act is a principles-based Act, removing unnecessary regulatory and legislative prescription.

A component of the Integrated Strategic Planning and Reporting Framework (ISPRF) is the Financial Plan. The Financial Plan is a rolling plan with a scope of at least the next 10 financial years.

This better practice guide sets out the key legislative and regulatory provisions relevant to the Financial Plan. It also considers technical and better practice aspects of long-term financial planning and provides support and guidance regarding the Financial Plan.

Changes to the 2025-26 edition

The first iteration of this guide was co-designed by the Local Government Finance Professionals (FinPro) and Local Government Victoria. In line with the principles-based approach of the *Local Government Act 2020* and the sector's familiarity with the legislated requirements, this 2025-26 to 2034-35 edition has been revised to meet the current and future needs and responsibilities of the sector.

The document has shifted from a prescriptive model to a more generalist guide. To this end, the template model Financial Plan and the example text throughout of the previous edition have been removed.

The result is a shorter document providing broader guidance focussed on expectations. This aligns with the expectation that a council's Financial Plan be the product of hard thinking, focussed discussions and quality evidence within council organisations, shaped and informed by community engagement. Accordingly, the 79 council Financial Plans that will be developed over 2025 should and will all be different – often starkly so. A templated model and guidance with extensive example text to copy and paste does not serve this aspiration, and this new edition is an expression of this.

Additionally, the document includes changes resulting from re-formatting the guide and updating relevant dates. Councils are encouraged to read this document in its entirety.

¹ Section 89(2)(a) of the *Local Government Act 2020*

Statutory and regulatory requirements

Local Government Act 2020

Strategic planning

Part 4 of the *Local Government Act 2020* addresses planning and financial management and Division 1 covers strategic planning. The Financial Plan is one of the strategic plans subject to the Strategic planning principles. Section 89 of the Act sets out the Strategic planning principles as follows:

89 Strategic planning principles

(1) A Council must undertake the preparation of its Council Plan and other strategic plans in accordance with the strategic planning principles.

(2) The following are the strategic planning principles —

a) an integrated approach to planning, monitoring and performance reporting is to be adopted;

(b) strategic planning must address the Community Vision;

(c) strategic planning must take into account the resources needed for effective implementation;

(d) strategic planning must identify and address the risks to effective implementation;

(e) strategic planning must provide for ongoing monitoring of progress and regular reviews to identify and address changing circumstances.

The *Local Government Act 2020* introduced a requirement for Victorian councils to develop, adopt and keep in force a Financial Plan covering at least the next 10 financial years. Many councils already prepare long-term financial plans for internal management purposes. The requirements under the Act mean councils must develop a Financial Plan that is publicly accessible.

The specific legislative requirements for a Financial Plan are set out in section 91 of the Act as follows:

91 Financial Plan

(1) A Council must develop, adopt and keep in force a Financial Plan in accordance with its deliberative engagement practices.

(2) The scope of a Financial Plan is a period of at least the next 10 financial years.

(3) A Financial Plan must include the following in the manner and form prescribed by the regulations—

(a) statements describing the financial resources required to give effect to the Council Plan and other strategic plans of the Council;

(b) information about the decisions and assumptions that underpin the forecasts in the statements specified in paragraph (a);

(c) statements describing any other resource requirements that the Council considers appropriate to include in the Financial Plan;

(d) any other matters prescribed by the regulations.

(4) A Council must develop or review the Financial Plan in accordance with its deliberative engagement practices and adopt the Financial Plan by 31 October in the year following a general election.

(5) The Financial Plan adopted under subsection (4) has effect from 1 July in the year following a general election.

Section 91(1) and section 91(4) refer to **deliberative engagement practices**. The Act requires deliberative engagement practices to be incorporated into a council's community engagement policy.

Financial management principles

Division 4 of Part 4 of the *Local Government Act 2020* addresses financial management. Section 101 of the Act sets out the financial management principles as follows:

101 Financial management principles

(1) The following are the financial management principles—

(a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;

(b) financial risks must be monitored and managed prudently having regard to economic circumstances;

(c) financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community;

(d) accounts and records that explain the financial operations and financial position of the Council must be kept.

(2) For the purposes of the financial management principles, financial risk includes any risk relating to the following—

(a) the financial viability of the Council;

(b) the management of current and future liabilities of the Council;

(c) the beneficial enterprises of the Council.

Service performance principles

The *Local Government Act 2020* requires Victorian councils to plan and deliver services in accordance with the service performance principles. Part 5 of the Act addresses council operations. Section 106 of the Act sets out the service performance principles as follows:

106 Service performance principles

(1) A Council must plan and deliver services to the municipal community in accordance with the service performance principles.

(2) The following are the service performance principles—

(a) services should be provided in an equitable manner and be responsive to the diverse needs of the municipal community;

(b) services should be accessible to the members of the municipal community for whom the services are intended;

(c) quality and costs standards for services set by the Council should provide good value to the municipal community;

(d) a Council should seek to continuously improve service delivery to the municipal community in response to performance monitoring;

(e) service delivery must include a fair and effective process for considering and responding to complaints about service provision.

Community engagement and public transparency

The *Local Government Act 2020* includes community engagement principles (section 56) and public transparency principles (section 58). The Act requires Victorian councils to adopt and maintain a public transparency policy (section 57) and to adopt and maintain a community engagement policy (section 55).

The Financial Plan is specifically referenced in section 55(2)(g) of the Act which requires (amongst other provisions) that a community engagement policy must:

(g) include deliberative engagement practices which must include and address any matters prescribed by the regulations for the purposes of this paragraph and be capable of being applied to the development of the Community Vision, Council Plan, Financial Plan and Asset Plan...

Local Government (Planning and Reporting) Regulations 2020

The *Local Government (Planning and Reporting) Regulations 2020* (the regulations) came into operation on 24 October 2020. Part 2 of the regulations prescribe the information to be included in a Financial Plan as follows:

5 Statements describing financial resources

(1) For the purposes of section 91(3)(a) of the Act, the statements describing the financial resources must be in the form set out in the Local Government Model Financial Report.

(2) For the purposes of section 91(3)(d) of the Act, the prescribed matters include a statement of capital works for the financial years to which the statements describing the financial resources referred to in section 91(3)(a) of the Act relate.

6 Statements describing other resource requirements

For the purposes of section 91(3)(d) of the Act, the prescribed matters include the following—

(a) a statement of human resources;

(b) a summary of planned expenditure in relation to the human resources referred to in the statement of human resources, categorised according to the organisational structure of the Council and classified separately as—

(i) permanent full time who are—

(A) women; or

(B) men; or

(C) persons of self-described gender;

or

(ii) permanent part time staff who are—

(A) women; or

(B) men; or

(C) persons of self-described gender;

(c) a summary of the planned number of full time equivalent Council staff referred to in the statement of human resources, categorised according to the organisational structure of the Council and classified separately as—

(i) permanent full time staff who are—

(A) women; or

(B) men; or

(C) persons of self-described gender;

or

(ii) permanent part time staff who are—

(A) women; or

(B) men; or

(C) persons of self-described gender.

Long-term financial planning better practice guide

The Financial Plan provides a 10 year financially sustainable projection regarding how the actions of the Council Plan may be funded to achieve the Community Vision.

At a minimum the Financial Plan is to include:

- *financial statements for next the ten years that includes Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Statement of Capital Works.*
- *statement of capital works is to include ten-year expenditure in relation to non-current assets, classified in accordance with the asset classes and asset expenditure types specified in the Local Government Model Financial Report and a summary of funding sources in relation to the planned capital works expenditure.*
- *a statement of human resources that includes a summary of planned expenditure for the next ten years in relation to permanent human resources and a summary of the planned number of permanent full time equivalent staff by organisational structure split between male, female and self-described gender.*

Individual councils may choose to also report this information in graphic format to assist report users and particularly those users with a non-accounting background.



Spotlight On: Revising a Financial Plan

The Financial Plan is – as set out in the *Local Government Act 2020* - intended to cover a period of at least the next 10 years. A new Financial Plan must be adopted by a new council by 31 October in the year following a general election.

This requirement is a minimum standard. A change to a council's financial situation – such as the acquisition of a significant new asset or shocks such as a natural disaster – should prompt a revision of a council's Financial Plan. Furthermore, any material change to the macroeconomic environment of a council should initiate a revision of the Financial Plan. These changes could include:

- *Changes in interest rates, inflation or other external financial factors*
- *Population growth/decline*
- *Impact of significant emergencies or natural disasters*
- *Changes in service levels or Council priorities*

Critically, the Financial Plan should not be a static document. It is improbable that a Financial Plan – if it is to remain relevant - be unchanged over a four-year council term. The decision to revise and adopt a new Financial Plan may be made by a council at any time.

Engagement Principles

The level of engagement will depend on each council's appetite for community input and the extent this input will impact the decision-making process. The table below describes the community engagement spectrum from a low-level engagement (inform) to a high level engagement (empower).

Community Engagement Framework				
Inform – 1	Consult – 2	Involve - 3	Collaborate - 4	Empower - 5
Low Level				High Level
Provide community awareness and keep them informed of the completion of the Financial Plan	Ask the community for feedback then inform them of how their input affected decision making.	Work directly with the community to ensure their views and aspirations are considered in developing the Financial Plan.	Partner with the community to develop joint solutions and incorporate their advice into the Financial Plan.	Community decides what is implemented and included into the Financial Plan.

Each Council will be required to describe a level of engagement in the development of the Financial Plan.

Asset Plan Integration

It is essential that any approach towards strategic financial planning be integrated to the Asset Plan. This will ensure that future funding is allocated in a manner that supports service delivery in terms of the plans and the effective management of Council's assets into the future.

The Asset Plan is designed to identify the operational and strategic practices which will ensure that Council manages assets across their life cycle in a financially sustainable manner.

The objective is for each council to confidently forecast its infrastructure investment needs and costs to ensure it can sustainably provide for current and future communities and ensure they are cost effectively managing asset associated risks and opportunities over the long term. Key considerations include:

- *Decisions about assets have significant financial consequences.*
- *Asset related expenditure and risk form a significant proportion of the financial statements and overall performance of each council.*
- *Service delivery is often highly dependent upon the assets owned and controlled by each council.*
- *Council assets are long lived, commonly built to last for 50 – 100 years and as they age there is an increase in maintenance costs.*

Revenue and Rating Plan Integration

Similar to the importance of the Asst Plan, the integration of council's Revenue and Rating Plan with its strategic financial plan is fundamental.

A Revenue and Rating Plan is a requirement of s.93 of the *Local Government Act 2020*. The Revenue and Rating Plan should provide clear explanations of all decisions made by a council in implementing their revenue and rating practices, including:

- Clear links under the *Local Government Act 2020* to a Council's -
 - Community Vision (Section 88);
 - Strategic Planning Principles (Section 89);
 - Council Plan (Section 90);
 - Financial Plan (Section 91);
 - Asset Plan (Section 92).
- Adherence to requirements under the -
 - Financial Management Principles (section 101); and
 - Service Performance Principles (section 106).

And -

- Information on the rating framework employed by council and justification for the basis of the framework, including the rationale and objective behind these decisions; and
- Clear references to relevant council policies, such as waste services, pricing and cost recovery, financial hardship, advocacy, and service provision.

Financial Policy Statements

A list of policy statements designed to demonstrate council's financial sustainability over the life of the next ten years. The policy statements are to include:

- an explanation of the financial measure that underpins each financial policy statement.
- an agreed financial target that is assigned to each financial measure.
- Ten-year calculations of each financial measure that may be compared to the respective target in order to demonstrate financial sustainability.
- The Financial Plan includes target performance measures that are indicative only. Each Council may choose to amend the target performance measures to suit their individual circumstances.

Strategic Actions

A list of strategic actions that disclose councils key funding priorities over the next ten years. By adopting the strategic actions in conjunction with the annual adoption of the Financial Plan, council is demonstrating its key financial strategies in order to ensure ongoing financial sustainability.

The strategic actions are included to the 10-year financial plan and, where appropriate, referenced in the commentary associated with the 10-year Comprehensive Income Statement and the 10-year Statement of Capital Works.

Assumptions to the Comprehensive Income Statement

In order to inform the ten-year view of projected income and expenditure the Financial Plan should include:

- *a table of annual percentage escalations for the next ten years comprising:*
 - *the major line items included to the ten-year Comprehensive Income Statement*
 - *the estimated annual CPI increases*
 - *the estimated annual percentage growth rate for the municipality*
- *an explanation of the reasons for the ten-year escalations for each major income and expense line item particularly where the annual escalations exceed the estimated annual CPI increase.*
- *Major income and expense line items are to comprise:*
 - *Rates and charges*
 - *Statutory fees and fines*
 - *User fees*
 - *Grants – operating*
 - *Grants – capital*
 - *Contributions*
 - *Other income*
 - *Employee costs*
 - *Materials and services*
 - *Depreciation and amortisation*
 - *Borrowing costs*
 - *Other expenses*

CPI and wage inflation - individual councils may choose to source CPI and wage inflation rates from the Victorian budget or budget update published by the Department of Treasury and Finance (DTF). Other sources include those published by the Australian Bureau of Statistics and other commercial sources of data.

Rate cap projections - it is desirable that each council determines its own rate revenue projections. These should be primarily informed by the anticipated rate revenue requirements of the council itself, not assumed rate cap amounts. Projections should assist councils to consider future applications for a higher rate cap amount via the Essential Services Commission.

For consistency the assumptions should align with the assumptions and escalation factors published in the 4-year budget document and updated as required.

Financial Plan Statements

The Financial Plan Statements comprise the following statements for the ensuing 10 years:

- Comprehensive Income Statement
- Balance Sheet
- Statement of Changes in Equity
- Statement of Cash Flows
- Statement of Capital Works
- Statement of Human Resources

Where possible the first 4 years of the 10-year Financial Plan Statements should align to the Budget as it relates to the same financial years. Alignment will ensure consistent financial year projections for both the Financial Plan and the Budget.

Financial Performance Indicators

A range of financial indicators should be used to demonstrate the financial sustainability of the ten-year Financial Plan and allow the reader to gain a better understanding of key measures such as indebtedness and liquidity which are often hidden when financial information is presented in financial statement format. The use of indicators over a ten-year horizon also allows trends to be assessed helping the reader to confirm the council's service delivery, infrastructure renewal, rating and debt strategies.

The financial performance indicators are also included in the Model Budget and are the prescribed financial performance indicators contained in the Regulations. Results against these indicators are also reported in council's performance statement included in the annual report.

The Act and regulations require councils to report actual results against these indicators, together with the other prescribed indicators contained in the regulations.

Individual councils may consider the inclusion of additional sustainable capacity indicators, such as indicators included in the Local Government Performance Reporting Framework (LGPRF).

Borrowing Strategy

A schedule and commentary of existing borrowings that comprise the current loan balance.

An explanation of the current debt position and a ten-year projection that discloses the debt position at the end of each financial year comprising:

- *new loan borrowings*
- *the amount of loan repayment*
- *the amount of interest payments*
- *the opening and closing debt balance*

Financial performance indicators that disclose for each year of the ten-year Financial Plan:

- *the total borrowings divided by rate revenue*
- *total debt servicing (interest payments) divided by rate revenue*
- *total debt commitment (interest and principle repayments) divided by rate revenue*
- *total indebtedness divided by own source revenue*

An explanation of the performance of each indicator over the life of the ten-year plan. Each Council may choose to amend the target performance measures to suit their individual circumstances.

Reserves Strategy

Reserves are allocations set aside for specific purposes in later years, typically of a statutory nature. The following minimum disclosures are recommended.

- A list of each reserve indicating if restricted or discretionary in nature.
- A table that discloses the ten-year reserve movements comprising:
 - the opening balance of each reserve
 - the value transferred into each reserve per annum
 - the value transferred from each reserve per annum
 - the closing balance of each reserve

Transfers into each reserve should include a description of the source and frequency of funding that may include either receipt of income from external sources or appropriation from council's existing cash funds.

Transfers out of each reserve should include an explanation of how each reserve is used to fund operating and capital expenditure within the Financial Plan.

The Reserves Strategy should include a description of the nature and purpose of each reserve including any usage restrictions.

The total reserves are required to balance to the Other Reserves within the Statement of Changes in Equity.

As reserves comprise public money or contingencies and this money can be effectively tied up for a duration councils should be highly transparent in their disclosures. This includes disclosure as to when the reserve is likely to be utilised, as well as indicating when reporting to council is to occur. A reserves strategy should

also clarify why such reserves are necessary, and why it is the optimal approach compared for example to borrowing, use of existing cash or sale of assets, especially in instances where a reserve fund is discretionary.

Treasury Management Approach

Treasury management refers to the practices associated with the day-to-day administration of an entity's financial resources, primarily cash and other liquid assets.

Councils should set out in their Financial Plan their proposed approach to managing their cash and other liquid assets. This will comprise a combination of short-term cash flow considerations, along with longer term investment/return considerations (see more below in 'Investment Strategy').

This commentary may include:

- *Proposed desired maximum/minimum liquidity levels*
- *Thresholds for allocation of surplus cash into investments*
- *Description of the types of treasury management instruments the council intends to use (i.e. types of investments, durations, term deposits, overnight deposits)*
- *Consideration of tools such as overdrafts or similar measures to ensure sufficient liquidity when the need arises.*

A treasury management or investment plan may also include a schedule setting out a range of investment options to balance returns with risk in accordance with the broader Financial Plan (more below).

Councils may also set out consideration of the risk levels acceptable to the council in terms of practices, as well as the risks associated with different investment approaches such as those of different Authorised Deposit Institutions and other securities in accordance with s.103 of the *Local Government Act 2020*.

Investment Strategy

Related to treasury management previously, a council should set out its approach to longer term investments.

This is especially relevant for councils that have large cash balances such as those arising from developer contributions over many years or councils with large land holdings and other assets. In these instances, a council should set out its proposed approach to managing such assets and be transparent about their longer-term intentions to benefit the municipality in accordance with the overarching governance principles set out in s.9 of the *Local Government Act 2020*.

This section should include a commentary on what sort of longer-term investments a council may have and/or wish to pursue including:

- *Approach to medium and longer term liquid asset management such as use of term deposits (2-3 plus years) and other investments*
- *Acquisition and/or subsequent disposal of assets such as land, buildings and other illiquid assets*

- *Desire levels of return and risks associated with longer term investments*
- *Consideration of other forms of longer-term investment such as acquisition or establishment of commercial entities and enterprises and associated assets.*

Councils should – at all times – ensure an investment strategy aligns and supports the goals set out in their Council Plan and Community Vision.

References

Department of Government Services (2024), *Local Government Model Financial Report*, State of Victoria

<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>

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