



RECOMMENDED PRACTICE

Long-Term Financial Planning (2009) (BUDGET)*

Background. Long-term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges. Long-term financial planning works best as part of an overall strategic plan.

Financial forecasting is the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables. Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges.

Many governments have a comprehensive long-term financial planning process because it stimulates discussion and engenders a long-range perspective for decision makers. It can be used as a tool to prevent financial challenges; it stimulates long-term and strategic thinking; it can give consensus on long-term financial direction; and it is useful for communications with internal and external stakeholders.

Recommendation. The Government Finance Officers Association (GFOA) recommends that all governments regularly engage in long-term financial planning that encompasses the following elements and essential steps.

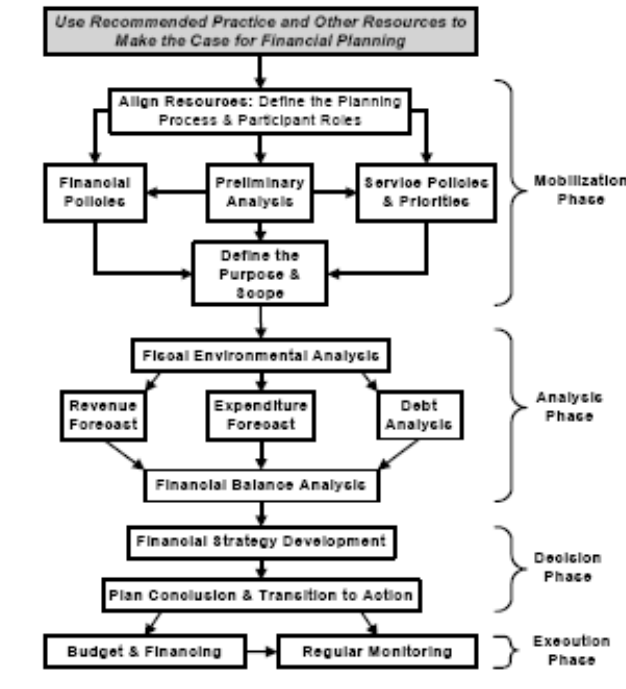
A long-term financial plan should include these elements.

- (1) *Time Horizon.* A plan should look at least five to ten years into the future. Governments may elect to extend their planning horizon further if conditions warrant.
- (2) *Scope.* A plan should consider all budgeted resources, but especially those funds that are used to account for the issues of top concern to elected officials and the community.
- (3) *Frequency.* Governments should update long-term planning activities as needed in order to provide direction to the budget process, though not every element of the long-range plan must be repeated.
- (4) *Content.* A plan should include an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and plan monitoring mechanisms, such as scorecard of key indicators of financial health.
- (5) *Visibility.* The public and elected officials should be able to easily learn about the long-term financial prospects of the government and strategies for financial balance. Hence, governments should devise an effective means for communicating this information, through either separate plan documents or by integrating it with existing communication devices.

A long-term financial plan should include these steps.

- (1) *Mobilization Phase.* The mobilization phase prepares the organization for long-term planning by creating consensus on what the purpose and results of the planning process should be. The mobilization phase includes the following items.
 - a. *Alignment of Resources.* This step includes determining the composition of the project team, identifying the project sponsor, and formulating a strategy for involving other important stakeholders. This step also involves the creation of a high-level project plan to serve as a roadmap for the process.
 - b. *Preliminary Analysis.* This step helps raise awareness of special issues among planning participants, such as the board or non-financial executive staff. A scan of the financial environment is common at this point.
 - c. *Identification of Service Policies and Priorities.* Service policies and priorities have important implications on how resources will be spent and how revenues will be raised. A strategic plan or a priority setting session with elected officials could be useful in identifying service policies and priorities
 - d. *Validation and Promulgation of Financial Policies.* Financial policies set baseline standards for financial stewardship and perpetuate structural balance, so a planning process must corroborate policies in place (as well as the organization's compliance with those policies) and also identify new policies that may be needed.
 - e. *Definition of Purpose and Scope of Planning.* The purpose and scope of the planning effort will become clear as a result of the foregoing activities, but the process should include a forum for developing and recognizing their explicit purpose and scope.
- (2) *Analysis Phase.* The analysis phase is designed to produce information that supports planning and strategizing. The analysis phase includes the projections and financial analysis commonly associated with long-term financial planning. The analysis phase involves information gathering, trend projection, and analysis as follows:
 - a. *Information Gathering.* This is where the government analyzes the environment in order to gain a better understanding of the forces that affect financial stability. Improved understanding of environmental factors should lead to better forecasting and strategizing.
 - b. *Trend Projection.* After the environment has been analyzed, the planners can project various elements of long-term revenue, expenditure, and debt trends.
 - c. *Analysis.* The forecasts can then be used to identify potential challenges to fiscal stability (e.g., "imbalances"). These could be fiscal deficits (e.g., expenditures outpacing revenues), environmental challenges (e.g., unfavorable trends in the environment), or policy weaknesses (e.g., weaknesses in the financial policy structure). Scenario analysis can be used to present both optimistic, base, and pessimistic cases.
- (3) *Decision Phase.* After the analysis phase is completed, the government must decide how to use the information provided. Key to the decision phase is a highly participative process that involves elected officials, staff, and the public. The decision phase also includes a culminating event where the stakeholders can assess the planning process to evaluate whether the purposes for the plan described in the mobilization phase were fulfilled and where a sense of closure and accomplishment can be generated. Finally, the decision phase should address the processes for executing the plan to ensure tangible results are realized.

(4) *Execution Phase*. After the plan is officially adopted, strategies must be put into action (e.g. funding required in achieving goals). The execution phase is where the strategies become operational through the budget, financial performance measures, and action plans. Regular monitoring should be part of this phase. The following diagram highlights the various long-term financial planning phases discussed in this recommended practice.



References:

- GFOA Recommended Practice:
 - *Financial Forecasting in the Budget Preparation Process* (1999).
 - *Adoption of Financial Policies* (2001).
 - *Establishment of Strategic Plans* (2005).
 - *Budgeting for Results and Outcomes* (2007).
 - *Performance Management: Using Performance Measurement for Decision Making* (2002 and 2007).
 - *Long-Term Financial Planning (2008) (BUDGET)* - Approved by the GFOA's Executive Board, February 22, 2008.
- Shayne Kavanagh, *Financing the Future Long-Term Financial Planning for Local Government*; GFOA, 2007.
- <http://www.gfoa.org/lftp>. GFOA Web site containing a wealth of supporting materials for financial planning.
- <http://www.gfoa.org/services/nacslb/>. Best Practices in Budgeting Web site. See Element 9 – Develop and Evaluate Financial Options.

Approved by the GFOA's Committee on Canadian Issues, June 27, 2009