

**Guidelines for  
Implementing Total Management Planning**

**Financial Management**

**IMPLEMENTATION GUIDE**



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## **LIST OF ACRONYMS**

AAS	Australian Accounting Standard
CMMS	Computerised Maintenance Management System
COAG	Council of Australian Governments
D&C	design and construct
DLGP	Department of Local Government and Planning
NR&M	Department of Natural Resources and Mines
FMP	Financial Management Plan
KPI	key performance indicator
OMA	operation maintenance and administration
ROI	return on investment
TMP	Total Management Plan
WSAA	Water Services Association of Australia
WSP	Water Service Provider

# 1 INTRODUCTION

This Implementation Guide is aimed at assisting elected representatives, board members and executive management of Queensland Water Service Provider (WSP) organisations in focusing on their financial obligations as an integral part of maintaining and improving the quality of their services. The Guide has been prepared so as to be compatible with the Queensland Government's legislative framework for regulation of the Queensland water industry.

More directly, the Guide provides a step-by-step guide for WSP practitioners and their consultants on the processes involved in developing:

- a Management Plan; and
- a generic Financial Planning Model.

The Management Plan provides the **qualitative** documentation and discussion, and the strategies on which the WSP's financial planning is based.

The Financial Planning Model, or decision tool, provides a **quantitative** analysis of the fiscal position of the business over time for a given financial management strategy.

## 2 A TMP APPROACH TO FINANCIAL MANAGEMENT

The Financial Management Plan takes information from each sub-plan contained within the TMP and converts this information into a financial management strategy, including development of a Financial Model. The financial management strategy is the key financial component of a WSP's Total Management Plan.

The overall objective of a financial management strategy is to:

- ensure that the business remains viable in both short term and long term;
- ensure that the services provided to customers give value for money;
- ensure statutory requirements are met;
- provide managers with sufficient financial information (e.g. costs, KPIs, projected budgets) to allow them to manage the businesses more effectively, and identify and implement efficiency improvements; and
- confirm to owners/shareholders that the business is being operated appropriately for the long term.

### 2.1 The Financial Management Plan

The Financial Management Plan outlines the key strategies and objectives of the organisation. It establishes a qualitative basis for financial management of the organisation (i.e. what it wants to achieve).

### 2.2 Financial modelling

A Financial Model is at the heart of the financial planning strategy. The Financial Model will quantify the impact of the organisation's financial strategies and demonstrate (in dollar terms) the performance of the organisation over time. In a sense, the Financial Model acts as a 'long-range radar' by identifying future capital works and funding requirements and highlighting the long-term impact of current revenue and funding strategies.

Ideally, the Financial Model should include:

- a long-term cash flow forecast indicating that the business will be able to pay its bills as and when they fall due;
- a long-term operating statement indicating the relative profitability of the organisation;

- a balance sheet illustrating the changes in the value of the businesses assets over time; and
- a list of key performance indicators providing quantitative benchmarks for comparison of performance, both within the organisation (i.e. improvements over time) and between organisations (i.e. how the business compares with its peers).

However, there is no single standard model ‘template’. WSPs may develop their own Financial Models using their existing information and software systems, provided that they meet all financial reporting and compliance requirements.

To assist organisations in producing Financial Models, two generic Financial Model ‘templates’ have been developed, which function on an output basis. These models have been designed to suit organisations at different development levels. The Basic model is suitable for organisations with non-commercial business activities. The Advanced model is suitable for organisations providing services on a commercial basis.

The Financial Models, although provided for TMP purposes, can also be applied to other asset-based services within for a WSP. For example, a local government may use the Financial Model to provide or develop financial projections for roads, community or social infrastructure. If such financial modelling is undertaken for the whole of the WSP’s activities, it will indicate the extent to which the WSP is financial viable.

After initial financial modelling, planning strategies and some assumptions contained within other TMP sub-plans may need to be reviewed to ensure that the long-term financial viability of the WSP is maintained.

## **2.3 Relationship between the Financial Model and Financial Management Plan**

The Financial Model is essentially the ‘engine room’ for the development of the overall Total Management Plan. Without the necessary financial resources, the WSP will be severely limited in implementing strategies to:

- achieve desired customer service targets;
- meet regulatory requirements; and
- meet financial obligations to owners and shareholders.

The Financial Model provides a projection of the financial performance of the WSP and the availability of financial resources in the long term. The Financial Management Plan uses this information to determine and support the organisation’s strategic direction.

The extent of development of the Financial Management Plan will depend on the size of the WSP itself. The TMP Development Guide presents a three-level total management planning development hierarchy, based on the extent of the asset portfolio of the WSP. Appendix A in this Guide provides an indication of the extent of information required in the development of the Financial Management Plan for the three categories of WSP.

The lower development level of financial management expected of smaller WSPs recognises that smaller WSPs have fewer water services issues and fewer resources that can be allocated to development of the TMP and its constituent parts.

## **2.4 Key output requirements of the Financial Management Plan**

The development of a Financial Management Plan and Financial Model has been based on output objectives. This provides the WSP with the flexibility to develop a Financial Management Plan in a format that meets its own reporting requirements and can be more easily addressed using existing financial models, information and software.

Appendix A provides guidance on the content and development level of a Financial Management sub-plan.

### 3 THE FINANCIAL MANAGEMENT PLANNING PROCESS

Development of the Financial Management Plan (and associated Model) would typically include the stages illustrated in Figure 1.

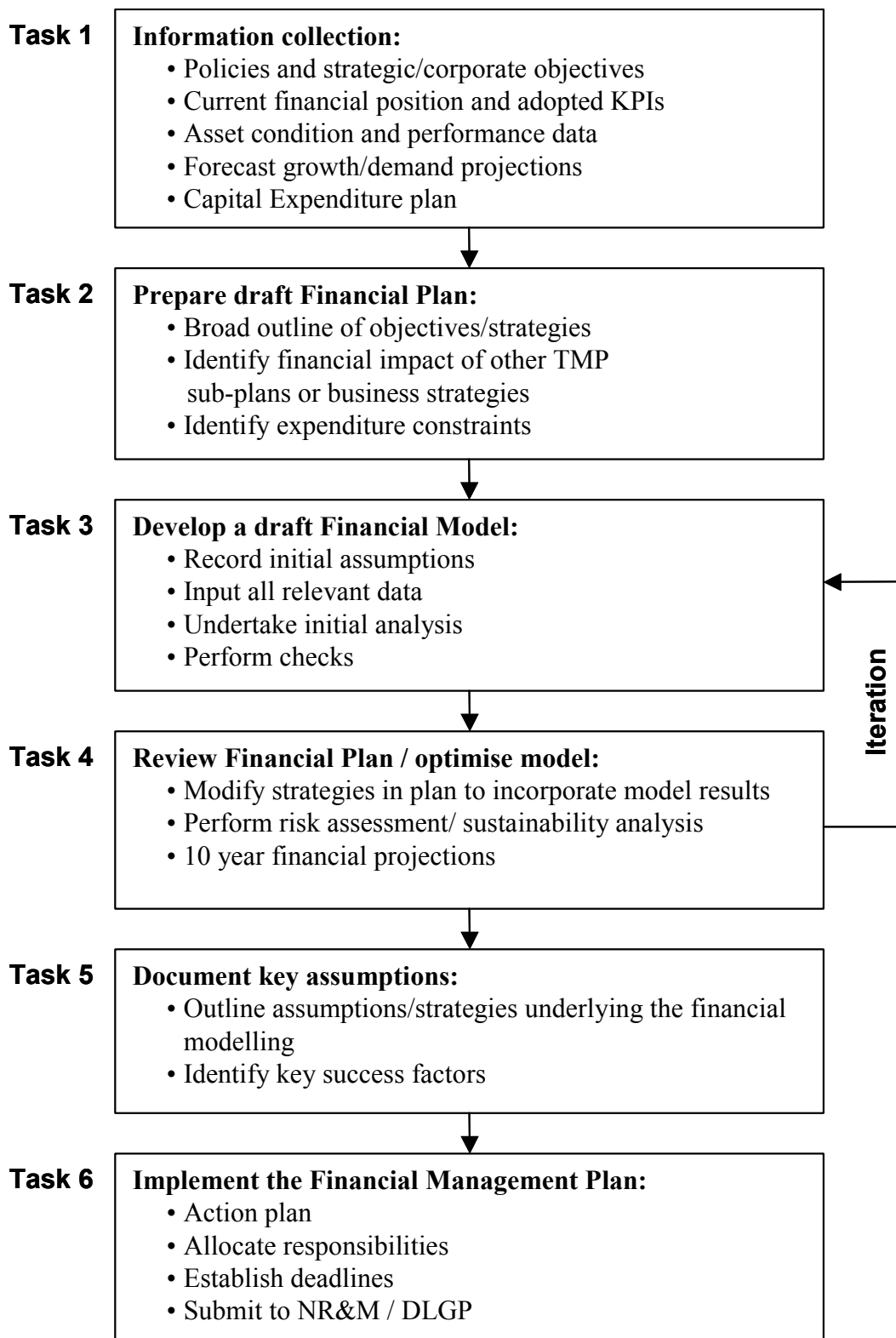


FIGURE 1: Process for establishing a Financial Management Plan

### **3.1 Task 1: Collect information**

The initial stage in developing the Financial Management Plan is to collect and collate relevant information. Data on which the Financial Management Plan is based includes the following:

- obtaining broad organisational direction from the Corporate, Operational and Business Plans (if available);
- revenue policies (including tariff structure, infrastructure charges, subsidy availability, community service obligations etc.);
- any other financial policies (e.g. dividend policy, borrowing policy, full cost pricing, commercialisation);
- identification of service standards/selection;
- past financial performance (i.e. previous budgets or annual reports);
- outline of the organisation's current financial position (particularly asset values, reserves, cash, debt levels and loan repayment schedules);
- outline of service delivery strategy (from Business Management Plan);
- implementation plans for service delivery strategies as outlined in other TMP sub-plans;
- asset-related information (e.g. asset performance, value, age, depreciation, replacement cost profile);
- demographic data (i.e. population and demand projections);
- general financial assumptions (e.g. expectations for subsidy).

This baseline information effectively provides a 'snapshot' of the organisation by describing exactly the WSP's current financial policy and position.

### **3.2 Task 2: Prepare draft Financial Plan**

Using the information collated from the initial stage, the organisation should then establish a preliminary framework for development of the financial plan. This will include a 'dot point' outline of what the organisation is trying to achieve in terms of financial management including broad outline of goals and objectives for the immediate future of the WSP.

In addition, the financial impact of the other TMP sub-plans needs to be considered to ensure that proposed new initiatives are incorporated into the financial analysis.

Finally, a brief outline of the more obvious constraints on the organisation will assist in providing the framework boundaries for the Financial Model. Together, this information should be collated as a 'draft' Financial Management Plan.

### **3.3 Task 3: Develop a draft Financial Model**

Development of an appropriate Financial Model is usually an iterative process. First, all relevant financial data collected to date should be entered into the Model and a preliminary financial analysis undertaken.

#### **Statement of cash flows**

In establishing a Financial Model, WSPs may find it easier to first develop a statement of cash flows. This is an essential and basic building block for the Model. The statement of cash flows will be a list of the business's cash movements throughout the year. This can be divided into cash used for:

- operational activities;
- capital-related activities; and
- financing activities.

The statement of cash flows is the most important component of the Financial Model for the business. If it indicates a large or repeatedly negative cash balance, this indicates that the business may not be viable (i.e. may not be able to pay its bills), and the original assumptions should be reviewed. It is not uncommon for a business to run a cash deficit for any given year, but if cash deficits compound over time then this may represent a problem. Until the statement of cash flows is completed and shows a regularly positive cash balance, there is little advantage in proceeding further.

### **Operating statement**

The next step in development of the Model should be to establish an operating statement (profit-and-loss statement). Many WSPs will find that much of the information required for development of the operating statement can be drawn directly from the statement of cash flows. The main differences between the two will be the addition of 'non-cash' revenues or expenses (e.g. depreciation) in the calculation of operating profit.

In addition, the operating statement may include an outline of how operating surpluses are to be distributed (e.g. dividend payment, retained earnings, transfer to capital account or other reserve account).

### **Forecast balance sheet**

The final stage in establishing a Financial Model is to develop a forecast balance sheet. The balance sheet will take summary information from the statement of cash flow and operating statements and use these to illustrate changes in the business's overall position over time. The balance sheet will show changes in asset balances (from cash balances, new capital works or donated assets) and changes in its liabilities (e.g. debt).

The way in which the cash flow statement, operating statement and balance sheet are interrelated is shown in Figure 2 (next page).

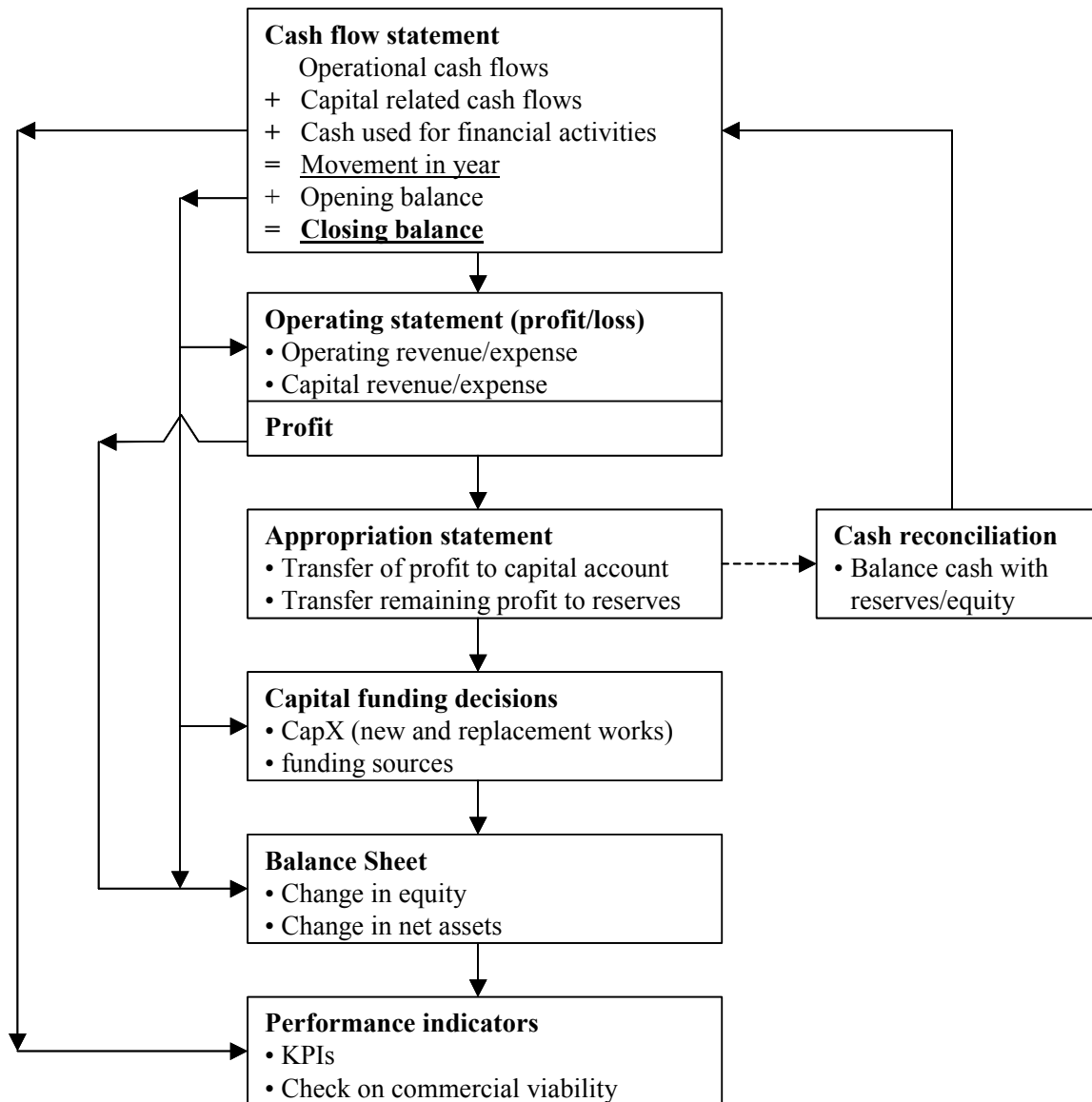
To demonstrate the long-term viability of the business, the Financial Model should be developed for a 10- to 20-year outlook. The decision as to which time period is most appropriate will be a function of the organisation's size and available resources.

### **Checking the model**

Once developed, the Financial Model should be checked against the following preliminary criteria:

- Is the cash flow balance consistently positive? (i.e. Does the business have sufficient cash to pay its bills as they fall due?)
- Are significant revenue increases required to fund capital improvements?
- Does the balance sheet indicate growth in the equity over time? Sustainable management practices will be reflected in consistent growth in the organisation's net assets or equity.
- Is the organisation profitable? The Financial Model should indicate a return on assets. Industry practice is to aim for a return of between 3% and 7%. However, provided the organisation generates sufficient cash and does not produce a large or sustained negative operational surplus, the organisation should remain viable.
- Is the capital structure consistent with the organisation's borrowing policy? In addition, the more highly geared WSPs (i.e. high debt/equity ratios) should check that existing loan covenants are not breached over the longer term.
- Any assumptions made about subsidies for new or replacement capital works should be discussed with the relevant government agency.

If the model fails any of these tests, it may indicate a need to re-evaluate the revenue or capital expenditure regime to ensure that the business remains viable over the long term.



**FIGURE 2: Interrelationships between financial reports**

### 3.4 Task 4: Review Financial Plan and optimise Financial Model

The Financial Management Plan should next be reviewed to ensure that it incorporates the outcomes indicated by the Financial Model. Modelling may indicate outcomes that differ from the objectives of the Financial Management Plan; this may necessitate changes to either the Model or the Plan, or both. Typically, the Model will be reviewed iteratively until these differences have been resolved. In addition, key performance indicators (KPIs) should be checked against both internal performance targets (Are we improving?) and external benchmarks (How do we compare with similar organisations?).

#### Risk assessment

Once the Financial Modelling and strategies contained within the Financial Management Plan have been reconciled, the WSP should undertake some initial risk assessment or sensitivity analysis to demonstrate the robustness of the overall Financial Management Plan. Such risk assessment would include identifying key variables, and changing these to illustrate the overall effect of the organisation.

The key variables might include:

- significant changes in demand/revenue;
- changes in subsidy;
- increasing interest rates;
- premature failure of capital assets requiring changes in the replacement works program; and
- increasing operational costs.

These sensitivity tests will assist in validating the overall Model or indicate areas of comparatively higher risk for the business. Where such high-risk areas are identified, they should be identified in the Financial Management Plan. It is acknowledged as impossible to avoid all risk. Nevertheless, some risks have a low probability of occurrence, and it may be more practical to change the organisation's strategies to accept and manage risks of this kind. Identification of such risks will ensure that managers are conscious of these issues in the day-to-day operation of the business.

### **Trend analysis**

Once the Financial Modelling is complete, graphs should be generated indicating year-to-year trends in terms of profitability, return on investment, operations, maintenance and administration (OMA) cost per property, cost per megalitre (ML), debt/equity and other key variations.

As the final step in the process, the WSP should develop a brief commentary that outlines the rationale supporting the Financial Management Plan. This commentary should outline at least the following:

- assumptions underpinning the financial analysis;
- proposed changes to the rates or tariff structure over the period modelled;
- proposed capital works program and the associated funding mechanisms (e.g. subsidy, debt, infrastructure charges);
- the required asset replacement program and associated funding mechanisms;
- comment on the attainment of target performance indicators;
- comment on the need for subsidy; and
- comment on the cash flow for the organisation.

### **Iterations**

Typically, most WSPs will find that they need to review key assumptions in the Model. This may occur several times until an appropriate result is obtained. This iterative process provides an opportunity for the WSP to assess the long-term viability of its proposed strategies. The end result of this process may be a need to review/refine several other strategies within the TMP (in particular, capital works planning and revenue policy).

## **3.5 Task 5: Document key assumptions**

Once the Financial Model has been completed and the preliminary results reconciled with the Financial Management Plan, the WSP should record the assumptions and key strategies on which the modelling is based. This will include any changes to the organisation's overall financial objectives and any parameters identified in the sensitivity analysis that may affect the operation of the business.

Such recording of key assumptions will assist the organisation when it conducts its annual review of its financial strategies.

### **3.6 Task 6: Implement the Financial Management Plan**

On completion of the Financial Management Plan, management of the WSP needs to provide a clear outline of the actions proposed to ensure the financial viability of the organisation over the long term. This will include:

- allocation of responsibilities for completion of the set actions; and
- nomination of a timeframe for attainment of key goals.

As stated earlier, the extent to which the WSP needs to address these issues depends on the development level of the WSP.

The finalised Financial Management Plan needs to address the output requirements identified in Table A2 (Appendix A) and be presented as part of the overall TMP to Council or the Board of Directors as a true and fair representation of the proposed financial position of the WSP for the immediate future. Adoption of the TMP and supporting Financial Plan will act as the primary driver in management of the WSP business.

### **3.7 FINALLY: The continuous improvement process**

In addition to the iterative process described above, the Financial Management Plan (including the Financial Model) needs to be reviewed and updated annually to test whether the assumptions made in the original analysis (e.g. timing of capital or replacement works) remain valid.

## **FURTHER READING**

*Guidelines for Evaluation of Introducing and Improving Two-Part Tariffs*, Department of Natural Resources, Brisbane, 1997.

## APPENDIX A: Content and development level of sub-plan

TABLE A1: Indicative sub-plan content

Sub-plan features	Financial Management Plan content
Issues covered in sub-plan	<ul style="list-style-type: none"> <li>▪ Financial modelling.</li> <li>▪ Tariffs (particularly 2-part tariff implementation).</li> <li>▪ Commercial objectives.</li> <li>▪ Headworks/infrastructure charges.</li> <li>▪ Subsidy requirements.</li> <li>▪ Revenues and expenses.</li> </ul>
Purpose of plan	<ul style="list-style-type: none"> <li>▪ To provide an overview of the WSP's current and future financial performance.</li> <li>▪ To outline financial strategies for the achievement of the WSP's goals and objectives and to ensure financial sustainability of the WSP.</li> </ul>
Policies that may be required	<ul style="list-style-type: none"> <li>▪ Revenue policy (required under Local Government Finance Standard 1994).</li> <li>▪ Borrowing policy.</li> <li>▪ Depreciation funding policy.</li> <li>▪ Trade waste (charging).</li> <li>▪ Rate of return</li> <li>▪ Community service obligations.</li> <li>▪ Headworks contribution (infrastructure charges).</li> <li>▪ Dividend payments.</li> </ul>
Other Total Management Plan elements that are intimately linked to this sub-plan	<ul style="list-style-type: none"> <li>▪ Infrastructure Plan: provides a 10-year infrastructure investment program (new and replacement works).</li> <li>▪ Asset Evaluation and Renewal Plan: provides asset register outputs such as current cost and value, depreciation and replacement cost profiles/renewals, and annuity calculations.</li> <li>▪ All sub-plans will provide current and future costs for issues considered under relevant sub-plan.</li> </ul>
External issues contributing to the current operating environment that need to be considered	<ul style="list-style-type: none"> <li>▪ NR&amp;M/DLGP requirements for annual submission of 10-year financial projections.</li> <li>▪ COAG agreement re: <ul style="list-style-type: none"> <li>- full cost recovery (ranging between floor and ceiling price) for urban and rural systems;</li> <li>- two-part consumption based pricing;</li> <li>- transparent Community Service Obligations and cross-subsidies.</li> </ul> </li> <li>▪ Statutory accounting requirements.</li> <li>▪ Queensland Competition Authority role regarding prices oversight.</li> <li>▪ Local Government Bodies Capital Works Subsidy Scheme — enhanced subsidy arrangements.</li> <li>▪ Funding depreciation for long life assets has significant impacts on charges. The renewals annuity approach as a more realistic approach, particularly for WSPs with a young asset base.</li> <li>▪ Commercialised business units are required to achieve 'commercial' rates of return commensurate with a low-risk water utility.</li> </ul>
Issues that need to be considered in summarising the status of current operations	<ul style="list-style-type: none"> <li>▪ Overview of revenues and costs.</li> <li>▪ Tariffs and level of metering.</li> <li>▪ Headworks contributions (infrastructure charges).</li> <li>▪ Agreements with bulk suppliers and major customers.</li> <li>▪ A discussion on the results of 10-year financial modelling (including relevant financial performance indicators) and its implication for customers, business, shareholders and State Government.</li> </ul>
Strategic basis of the plan	<ul style="list-style-type: none"> <li>▪ The strategies will be based on existing strengths and weaknesses of a WSP's financial management and issues impacting on the WSP. Many WSPs are likely to require strategies relating to pricing, refining and updating financial projections (models), achieving desired financial performance targets. The strategic direction should include: <ul style="list-style-type: none"> <li>▪ goals for financial sustainability;</li> <li>▪ objective(s) for financial management;</li> <li>▪ strategies; and</li> <li>▪ performance targets including KPIs.</li> </ul> </li> </ul> <p>The strategies should be supported by action plans which would cover a period of up to 3 years.</p>

Sub-plan features	Financial Management Plan content
Suggested performance measures	<ul style="list-style-type: none"> <li>▪ Outcome: What is the broad strategic goal?</li> <li>▪ Output: What are the measurables or deliverables from the process?</li> </ul>
Supporting documentation	<ul style="list-style-type: none"> <li>▪ This will depend on the individual WSP, but typically would include:</li> <li>▪ infrastructure charges, policy and schedules;</li> <li>▪ two-part tariff evaluation report;</li> <li>▪ bulk water agreements; and</li> <li>▪ agreements with major customers.</li> </ul>

**TABLE A2: Required sub-plan development level**

Development level <sup>1</sup>	Target management mechanisms of Financial Management Plan	Target management mechanisms of Financial Model
Level 3	<p>An Executive Summary, including:</p> <ul style="list-style-type: none"> <li>▪ A statement of endorsement by authorised management and personnel;</li> <li>▪ Capital expenditure (new and replacement works) over an extended period (at least 10 years);</li> <li>▪ Forecast revenue by type and trends over time;</li> <li>▪ Forecast operation, maintenance cost and anticipated trends;</li> <li>▪ Commentary briefly discussing (in plain English) the meaning of the results of the financial management model outputs;</li> <li>▪ Brief outline of key assumptions made in the analysis;</li> <li>▪ Funding decisions (cash flows); and</li> <li>▪ KPIs as a forward guide (KPIs developed in accordance with standard format).</li> </ul> <p>An outline of key financial strategies and accounting policies including:</p> <ul style="list-style-type: none"> <li>▪ pricing policy (e.g. volumetric charging);</li> <li>▪ capital structure and borrowing policies;</li> <li>▪ cash management policy;</li> <li>▪ dividend policies; and</li> <li>▪ taxation equivalents.</li> </ul> <p>An outline of key financial processes:</p> <ul style="list-style-type: none"> <li>▪ an outline of the budgetary process and relationship to outputs of the Financial Model;</li> <li>▪ an outline of budgetary control mechanisms;</li> <li>▪ an outline of the monitoring and reporting process;</li> <li>▪ an outline of the project evaluation framework (i.e. basis for assessment of individual projects);</li> <li>▪ an outline of 'internal' linkages (i.e. cross-reference to other documents within the TMP);</li> <li>▪ the proposed funding processes (projected loans, assumptions on subsidy, project delivery options (D&amp;C) etc);</li> <li>▪ the review process for the (annual) update of the FMP; and</li> <li>▪ key commercial objectives and ROI.</li> </ul> <p>Discussion on the results and trends of the financial modelling including:</p> <ul style="list-style-type: none"> <li>▪ how the results of the modelling support the general strategic direction and commercial objectives of the organisation;</li> <li>▪ an outline of risk factors; what could compromise the results of the financial modelling; and</li> </ul>	<p>At least the following:</p> <ul style="list-style-type: none"> <li>▪ forecast general purpose financial statements* including: <ul style="list-style-type: none"> <li>▪ a minimum 20-year cash flow projection;</li> <li>▪ a minimum 20-year balance sheet;</li> <li>▪ a minimum 20-year operating statement (profit and loss);</li> <li>▪ an appropriate statement broadly indicating how operating surpluses are distributed;</li> <li>▪ capital works program;</li> <li>▪ taxation equivalents and dividend payments program; and</li> <li>▪ key performance indicators including: <ul style="list-style-type: none"> <li>- financial KPIs: <ul style="list-style-type: none"> <li>○ return on equity (%)</li> <li>○ debt to equity ratio (%)</li> <li>○ interest cover (cash flow)</li> <li>○ operating sales margin</li> <li>○ average rate/charge per connection</li> <li>○ yield (dividend/equity)</li> </ul> </li> <li>- performance-based KPIs: <ul style="list-style-type: none"> <li>○ OMA cost per property served</li> <li>○ OMA cost per 100 km main</li> <li>○ cost per ML</li> <li>○ administration cost per connection.</li> </ul> </li> </ul> </li> </ul> </li> </ul> <p>* Note: These statements should be developed on a commercial basis and should differentiate between operating and capital cash flows.</p>

Development level <sup>1</sup>	Target management mechanisms of Financial Management Plan	Target management mechanisms of Financial Model
	<p><b>Level 3 (continued)</b></p> <ul style="list-style-type: none"> <li>▪ KPIs including return on investment, weighted average cost of capital, targeted dividends, tax equivalent payments and other financial indicators.</li> </ul>	
Level 2	<p>A one-page summary including:</p> <ul style="list-style-type: none"> <li>▪ a statement of endorsement by authorised management and personnel;</li> <li>▪ capital expenditure (new and replacement works) over an extended period (at least 10 years);</li> <li>▪ forecast revenue and trends over time;</li> <li>▪ forecast operation, maintenance cost and anticipated trends;</li> <li>▪ commentary briefly discussing (in plain English) the meaning of the results of the financial management model outputs;</li> <li>▪ brief outline of key assumptions made in the analysis;</li> <li>▪ funding decisions (cash flows); and</li> <li>▪ KPIs as a forward guide (KPIs developed in accordance with standard format).</li> </ul> <p>A brief outline of key financial strategies and accounting policies including:</p> <ul style="list-style-type: none"> <li>▪ pricing policy (e.g. volumetric charging); and</li> <li>▪ capital structure and borrowing policies.</li> </ul> <p>An outline of key financial processes:</p> <ul style="list-style-type: none"> <li>▪ an outline of the budgetary process and relationship to outputs of the Financial Model;</li> <li>▪ an outline of budgetary control mechanisms;</li> <li>▪ an outline of the monitoring and reporting process;</li> <li>▪ outline of the project evaluation framework (i.e. assessment of individual projects);</li> <li>▪ an outline of ‘internal’ linkages (i.e. cross-reference to other documents within the TMP);</li> <li>▪ the proposed funding processes (projected loans, assumptions on subsidy, project delivery options (D&amp;C) etc.); and</li> <li>▪ the review process for the (annual) update of the FMP.</li> </ul> <p>Discussion on the results and trends of the financial modelling including:</p> <ul style="list-style-type: none"> <li>▪ how the results of the modelling support the general strategic direction and commercial objectives of the organisation;</li> </ul>	<p>The Financial Model should include at least the following:</p> <ul style="list-style-type: none"> <li>▪ forecast general purpose financial statements including: <ul style="list-style-type: none"> <li>- a minimum 10-year cash flow projection;</li> <li>- a minimum 10-year balance sheet;</li> <li>- a minimum 10-year operating statement (profit and loss);</li> </ul> </li> <li>▪ an appropriate statement broadly indicating how operating surpluses are distributed;</li> <li>▪ capital works program; and</li> <li>▪ key performance indicators including: <ul style="list-style-type: none"> <li>- financial KPIs: <ul style="list-style-type: none"> <li>○ return on equity (%)</li> <li>○ debt to equity ratio (%)</li> <li>○ interest cover (cash flow)</li> <li>○ operating sales margin</li> <li>○ average rate/charge per connection</li> </ul> </li> <li>- performance-based KPIs: <ul style="list-style-type: none"> <li>○ OMA cost per property served</li> <li>○ OMA cost per 100 km main</li> <li>○ cost per ML</li> <li>○ administration cost per connection.</li> </ul> </li> </ul> </li> </ul>

Development level <sup>1</sup>	Target management mechanisms of Financial Management Plan	Target management mechanisms of Financial Model
	<p><b>Level 2 (continued)</b></p> <ul style="list-style-type: none"> <li>▪ an outline of risk factors (i.e. What could compromise the results of the financial modelling?); and</li> <li>▪ KPIs including return on assets, weighted average cost of capital and other financial indicators.</li> </ul>	
Level 1	<p>A one-page summary including:</p> <ul style="list-style-type: none"> <li>▪ a statement of endorsement by authorised management and personnel;</li> <li>▪ proposed capital expenditure (new and replacement works);</li> <li>▪ forecast revenue and trends over time;</li> <li>▪ forecast operation, maintenance cost and anticipated trends;</li> <li>▪ commentary briefly discussing (in plain English) the meaning of the results of the financial management model outputs.</li> </ul> <p>A brief outline of key financial strategies and accounting policies including:</p> <ul style="list-style-type: none"> <li>▪ pricing policy (e.g. volumetric charging); and</li> <li>▪ capital structure and borrowing policies.</li> </ul> <p>An outline of key financial processes:</p> <ul style="list-style-type: none"> <li>▪ an outline of the monitoring and reporting process;</li> <li>▪ an outline of ‘internal’ linkages (i.e. cross-reference to other documents within the TMP);</li> <li>▪ proposed funding arrangements (projected loans, assumptions on subsidy etc.); and</li> <li>▪ the review process for the (annual) update of the FMP.</li> </ul> <p>Discussion on the results and trends of the financial modelling including:</p> <ul style="list-style-type: none"> <li>▪ how the results of the modelling support the general direction of the organisation;</li> <li>▪ an outline of risk factors; (i.e. What could compromise the results of the financial modelling?); and</li> <li>▪ KPIs including return on assets and other financial indicators.</li> </ul>	<p>The Financial Model should include at least the following:</p> <ul style="list-style-type: none"> <li>▪ forecast financial statements including: <ul style="list-style-type: none"> <li>- a cash-based projection of the financial position of the WSP over the next 10 years;</li> <li>- a statement on proposed changes in asset portfolio; and</li> <li>- a statement on the ability of the organisation to sustain a operating system;</li> </ul> </li> <li>▪ capital works program;</li> <li>▪ key performance indicators including: <ul style="list-style-type: none"> <li>- financial KPIs: <ul style="list-style-type: none"> <li>○ return on equity (%)</li> <li>○ debt to equity ratio (%)</li> <li>○ interest cover (cash flow)</li> <li>○ average rate/charge per connection</li> </ul> </li> <li>- performance-based KPIs: <ul style="list-style-type: none"> <li>○ OMA cost per property served</li> <li>○ OMA cost per 100 km main</li> <li>○ cost per ML.</li> </ul> </li> </ul> </li> </ul>

<sup>1</sup> Defined in Section 4.2 of TMP Development Guide.