

# Long Term Financial Plan

## Workshop Purpose:

Review of the Long Term Financial Plan Assumptions

PROGRAM: FINANCE AND PROCUREMENT

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REVIEW OF THE LONG TERM FINANCIAL PLAN | AUDIT COMMITTEE 7 FEBRUARY 2020

CORPORATE

# REVIEW OF THE LONG TERM FINANCIAL PLAN

## KEY QUESTIONS

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What feedback do you have on the assumptions within the Long Term Financial Plan?

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What further considerations should be incorporated into the Long Term Financial Plan?

### Rates

- Rate in the dollar frozen since 2013-14
- Uplift in valuations (Annual Assessed Value for City of Adelaide)
  - Current assumption is medium term CPI 2.3% (based on estimates at time of 2019-20 LTFP review)
  - Short to medium term forecasts on market research and analysis
- Increase from new developments and additions:
  - Current assumption is 1% based on the assumption for previous years
  - Short to medium term forecasts being developed based on development applications and market

### Other Income and Expenditure

- Based on existing budget indexed by medium term CPI (presently 2.3%) unless there are specific and material variations (e.g. new electricity contract)
- Updated quarterly for baseline changes (e.g. 2019-20 increase in the Solid Waste Levy, reductions in expiations)
- Interest rates – presently 2.75%

### **Allocations for Projects and Infrastructure Program**

- Baseline updated annually based on adopted budget (with sufficient allowance for Asset Management Plans)
- Adjustments made in specific years (e.g. allocation of funding from Infrastructure Program for Gawler Place in 2019-20)
- Carry forwards adjusted quarterly

### **Major Projects and Property Developments**

- Detailed analysis on impact on LTFP undertaken as part of Council consideration (usually as part of Prudential Report)
- Incorporated within the LTFP once a Council decision is made (e.g. Central Market Arcade)

## Ratios and indicators we presently report on Quarterly

- Borrowings
- Underlying Operating Surplus (Deficit)
  - The surplus/(deficit) from general and business operations less allocation for the Infrastructure Program and Projects
- Operating Surplus Ratio
- Asset Sustainability Ratio
- Net Financial Liabilities Ratio
- Asset Test Ratio
- Debt Service Coverage Ratio
- Net Financial Liabilities Ratio

## What other ratios should be considered?

### Funding Levers

- Rates
- Rate in the dollar
- 10% cap on valuation increase
- Fees and Charges
- Grants and Sponsorships
- Commercial Revenue
- Borrowings
- Sale of Assets

### Expenditure Levers

- Operational Expenditure
- Service Levels
- Allocation for the Infrastructure Program
- Allocation for Projects

### Quarter 2 Revised Forecast Adjustments to LTFP

- Timing of cash flows associated with commercial property investments
- Incorporate Quarter 2 revised forecast
  - Baseline changes including increase in rates income and forecast reductions in expiations and income for Gawler UPark
  - Carry forwards from 2019-20 into 2020-21 and 2021-22
- Savings arising from the new electricity contract commencing 1 July 2020
- Recognition of timing variation between cash flows and funding recognition of grants
- Revised interest based on additional borrowings

## Limitations

- Rates growth assumptions require greater market intelligence
- Operational budgets assume service levels remain constant, noting significant savings have been achieved to date with work underway to continue to review service level
- Allocations for Projects and Infrastructure based on historical allocation
- Review of the LTFP requires the repayment of borrowings (repayments presently based on forecast surpluses)
- Foresight beyond current budget is **presently** limited by
  - Timing of the strategic planning cycle (end of 2016-2020 Strategic Plan)
  - Integrity of expenditure forecasts in existing asset management plans
  - Limited modelling of the financial impacts from commercial and residential growth
  - Demand for parking in the medium term unknown (c\$40m budget inclusive of expiations)
  - Medium to long term plan for businesses and property (noting strategic property review underway)

## Unique characteristics for capital city council

- Extensive list of emerging priorities
- Emerging priorities (major projects and property developments) have a material impact on the LTFP
- Lack of direct correlation between rates revenue and expenditure in delivering services
  - Note: Waste is the primary exception that is of material value

# REVIEW OF THE LONG TERM FINANCIAL PLAN

## KEY CONSIDERATIONS

### Opportunities

- Forward forecast on rates growth from the uplift in valuations and new developments and additions
  - Valuations have been brought in house which will help facilitate this
- Incorporation of emerging priorities and scenario modelling
  - The new 2020-2024 Strategic Plan will provide greater clarity
- Specific allocation for Asset Renewals within the Infrastructure Program
  - New Asset Management Plans based on recent condition audits will provide a more reliable forecast
- Detailed rolling four year financial plan informed by
  - The Delivery Plan for the 2020-2024 Strategic Plan
  - The New Asset Management Plans
- Medium to long term scenario modelling on services including
  - demand for parking impact on parking services
  - infrastructure requirements (e.g. traffic volumes)



## Other Considerations

- Modelling the impact of freezing the rate in the dollar
- Review requires the repayment of borrowings
- Allocation of funding to provide “capacity to respond” to emerging priorities
  - The Strategic Property Review will identify opportunities to leverage assets to fund new income generating opportunities
- Simplify the presentation of the Long Term Financial Plan
  - Categorised into Operations, Projects and Infrastructure
- Review of the financial ratios and indicators presented used to analyse Council’s financial sustainability

# REVIEW OF THE LONG TERM FINANCIAL PLAN CATEGORIES

The 2020-21 Budget will be simplified into three main categories:

Operations	Projects	Infrastructure
<ul style="list-style-type: none"><li>▪ General Operations</li><li>▪ Business Operations</li><li>▪ Programs and initiatives which are on-going and operational in nature (e.g. grants and sponsorships, City Connector Bus, Christmas in the City)</li><li>▪ Rolling renewal programs for plant, fleet and equipment (including ICT equipment)</li></ul>	<p>All projects that are not related to infrastructure or existing buildings.</p> <p>This includes commercial property developments and Information Management projects.</p>	<p>All Infrastructure Projects and Programs including</p> <ul style="list-style-type: none"><li>▪ Infrastructure Program</li><li>▪ All other infrastructure projects, including Major Projects (e.g. Gawler Place, Quentin Kernihan Playspace and City Skate Park)</li></ul>

### **Audit Committee**

- More oversight
- Review the quarterly revisions to the LTFP
- Review the LTFP as part of the 2020-21 Business Plan and Budget
- Provide input on the medium to long term assumptions within the LTFP

### **Council**

- Decision making role in adopting Business Plan and Budget
- Consider new revenue opportunities and service efficiencies
- Provide direction on and prioritise four year rolling budget
- Provide direction on and prioritise four year delivery plan

### **Finance Planning & Analysis Team**

- Implement the recommendations from the Internal Audit
- Establish a framework and action plan for the on-going development and review of the LTFP