



# AUDIT COMMITTEE

## AGENDA & REPORTS

for the meeting

Friday 19 March 2021  
at 8.30 am

in the Colonel Light Room  
Adelaide Town Hall



<b>Membership:</b>	The Lord Mayor 1 Council Member 3 External Independent Members 2 Proxy Council Members
<b>Quorum:</b>	<b>3</b>
<b>Presiding Member</b>	Mr David Powell
<b>Deputy Presiding Member</b>	Mr Ross Haslam
<b>Members</b>	The Right Honourable the Lord Mayor [Sandy Verschoor] Ms Paula Davies Councillor Hyde
<b>Proxy Members</b>	<i>Councillor Knoll [proxy for the Lord Mayor]</i> <i>Councillor Couros (Deputy Lord Mayor) [proxy for Councillor Hyde].</i>

## 1. Acknowledgement of Country

'Council acknowledges that we are meeting on traditional Country of the Kaurna people of the Adelaide Plains and pays respect to Elders past and present. We recognise and respect their cultural heritage, beliefs and relationship with the land. We acknowledge that they are of continuing importance to the Kaurna people living today.

And we also extend that respect to other Aboriginal Language Groups and other First Nations who are present today.'

## 2. Confirmation of Minutes – 5/2/2021

That the Minutes of the meeting of the City of Adelaide Audit Committee held on 5 February 2021 be taken as read and be confirmed as an accurate record of proceedings.

## 3. Presiding Member Reports

## 4. Reports

- 4.1. Financial Indicators and 2021/22 Budget Update [2020/01920] [Page 3]
- 4.2. Long Term Financial Plan Update [2020/01920] [Page 41]
- 4.3. Financial Capitalisation Update [2021/00216] [Page 74]

## 5. Emerging Key Risks

## 6. Independent Member Discussion

## 7. Other Business

**8. Item Seeking Exclusion of the Public (If required)**

**9. Confidential Item (if any)**

**10. Closure**

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# Financial Indicators and 2021/22 Budget Update

**ITEM 4.1** 19/03/2021  
**Audit Committee**

Strategic Alignment - Enabling Priorities

**Program Contact:**  
Grace Pelle, Manager, Finance &  
Procurement 8203 7343

2020/01920  
Public

**Approving Officer:**  
Justin Lynch, Chief Operating  
Officer, Corporate Services

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## EXECUTIVE SUMMARY

This report will provide a status update on the preparation of the 2021/22 Business Plan and Budget and associated financial indicators

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## RECOMMENDATION

### THAT THE AUDIT COMMITTEE

1. Notes the report and provides feedback on the 2021-22 Business Plan & Budget information contained in Attachment A to Item 4.1 on the Agenda for the meeting of the Audit Committee held on 19 March 2021.

## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities
Policy	Not as a result of this report
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Not as a result of this report
Opportunities	Not as a result of this report
20/21 Budget Allocation	Not as a result of this report
Proposed 21/22 Budget Allocation	Not as a result of this report
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
20/21 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

## DISCUSSION

### 1. Financial Indicators

- 1.1. At the Committee held on 5 February 2021, a review of current financial indicators was undertaken.
- 1.2. Upon further analysis of financial performance a further indicator has been introduced, namely Cashflow from Operations Ratio.
- 1.3. **Cash Flow from Operations Ratio** is the Cash Flow from Operations as a percentage of forecast required expenditure in the asset management plans.
- 1.4. This indicator represents whether Council is generating enough cash from its operations to cover the replacement of assets over time.
- 1.5. A lower ratio indicates that Council is not generating enough cash from operations to cover asset replacement (less than 100%) and as a result Council is funding the replacement of assets from unsustainable sources of income that is forecasting an increasing level of borrowings over time.
- 1.6. Council's Cash Flow from Operations Ratio falls outside of the target across the plan. Between 2020-21 and 2023-24 Council is forecast to recover from COVID-19 and invest in the Central Market Arcade resulting in reduced income during construction. From 2028-29 Council falls outside of the target as reserves have not been put aside in order to fund significant renewals required.
- 1.7. This ratio highlights the risk regarding Council's ability to fully fund the larger renewals that are presented in the LTFP in the later years. This is not to suggest deficiency in renewal, but rather highlight the opportunity in advance to seek alternative funding sources such as State or Federal Grants to assist with the funding of significant asset renewal projects for the benefit of the wider SA metropolitan area.

### 2. 2021-22 Business Plan and Budget

- 2.1. Due to the timelines associated with Council approval of a draft document by 6 April, provided in **Attachment A** is the latest information provided to Council regarding the proposed 2021/22 budget prepared in accordance with parameters provided and feedback from earlier workshops.
- 2.2. Acknowledging the Committee's opinion provided regarding attaining a surplus or at worst break even position, it is requested that the Committee consider providing an opinion based on the proposed deficit budget taking into consideration the context of historical deficits and recovering from COVID 19 pandemic.

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## DATA AND SUPPORTING INFORMATION

Nil

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## ATTACHMENTS

**Attachment A** – 2021-22 Business Plan & Budget information

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- END OF REPORT -

# Enabling Priorities

**21-22 Business Plan and Budget**  
To discuss Strategic Projects and  
Assets and Infrastructure for the upcoming  
City of Adelaide Business Plan and Budget

Finance & Procurement  
Grace Pelle





# Key Messages

## Workshop outline

### Approach

- Delivery timeline
- Financial Sustainability Principles
- February workshop (update)
- Reshaping our organisation (update)

### BP&B Build

- Income (update)
- Draft Budget (revised)
- LTFP (update)

### Strategic Projects

- Projects to be delivered
- **KEY QUESTION**

### Assets and Infrastructure

- Parameter and Assumptions
- Whole of Life Approach
- Draft Budget
- Upgrades and enhancements
- **KEY QUESTION**
- Renewals and replacements
- **KEY QUESTION**
- Summary 2021 - 22 plan

### Appendix

- Draft LTFP Dashboard
- Strategic Projects
- Major Projects
- Upgrades and enhancements
- Renewals
- Continuing Projects

### Engagement

### Next Steps



# Key Questions

## Key Question

### PROJECTS

What are Council Members' views on the prioritisation of the Strategic Projects allocation?

## Key Question

### ASSETS & INFRASTRUCTURE

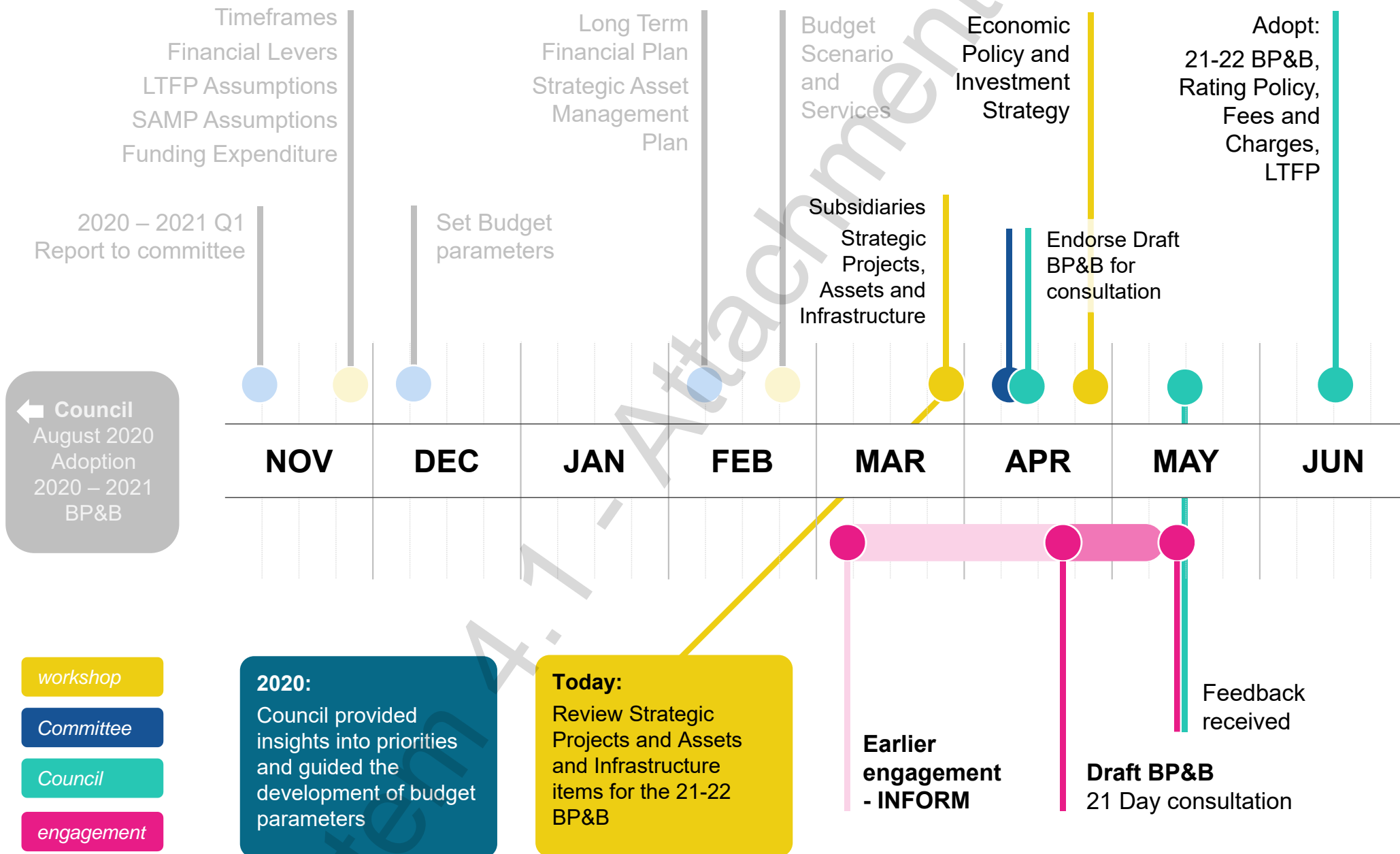
What are Council Members' views on the 2021-22 draft budget for New, Upgrade and enhancements of Assets?

## Key Question

### ASSETS & INFRASTRUCTURE

What are Council Members' views on the 2021-22 draft budget for Renewal and Replacement of Assets?

# Approach : Delivery Timeline



## Financial Sustainability of all decisions is paramount.

**Continuing to review all areas of the business to ensure we don't continue to borrow to operate, this review includes but not limited to:**

- Continued improvements and efficiencies that deliver sustainable cost savings
- Continued review of service delivery via Contestability
- Continued review of services to maximise revenue opportunities
- Clear, consistent allocation of funding pathways to ensure sustainability is maintained.

## Recovery Principles guide our decision making.

**The recovery principles adopted by Council are essential considerations as we work together to build the 2021-22 Business Plan and Budget:**

- Our rates, fees and charges approach is fair and equitable
- Financial borrowings adjusted to stimulate growth
- Proceeds from selling assets will build a future fund
- Asset renewals will be prioritised based on audit condition and risk
- Asset enhancements will be delivered through partnerships
- We will seek Government funding for new infrastructure
- Our service delivery will reflect the needs of the community
- Investment is prioritised to support recovery.

## At the BP&B workshop on the 23 February Council Members:

- Reviewed the 2021-22 Budget parameters and underlying assumptions.
- Reviewed Levers to find efficiencies, including Services and Operational Activities.

## Feedback from the February workshop has informed the following approach:

- Maintaining Service Expenditure at current expenditure levels.
- Maintaining Operational Activities at current service levels.
- Continuing to build efficiencies and community value into what we deliver throughout 2021-22
- Continuing to work with KPMG on service contestability. These works have been re-timed to be workshopped with our independent audit committee in April 2021.
- Maintaining Rate in the dollar freeze and valuation
- Acting CEO is consulting with key stakeholders about properties deemed to be “for public purposes on public land”, currently exempt from paying rates under federal and state legislation
- Continuing to review Fees and Charges to be fair and equitable and to maximise revenue opportunities
- Delivering Subsidiary budgets (presented separately to Council)
- Considering market recovery from the effects of COVID

**The revised draft 2020-21 Budget is an operating deficit of \$4.6m, and borrowings of \$98.5m.**

## In February, Council Members reviewed the status of Reshaping our Organisation:

- Council had agreed to a \$20m permanent ongoing reduction to Operating Expenditure during the 2020-21 BP&B process.
- As of January 2021, \$18m of the ongoing savings have been identified within Labour and Non-Labour expenditure.

## The remaining \$2 million target has been identified, including the following:

- \$600k increase to vacancy management target based on 3% of employee costs, consistent with 3 year average from 2017-18 to 2019-20
- \$500k general operational savings identified such as interest expense, IT and Legal.
- \$450k Operating Activities savings associated with administrative re-prioritisation of the IM Roadmap \$400k, and the removal of Superloop funding \$0.05m.
- \$250k Reduction of 2.0 FTE and associated overtime.

In identifying these savings, we are confident that it will not impact on the levels of service we deliver to our Community.

\$'000s	Ongoing from 2021-22 (February)	Ongoing from 2021-22 (Current)
<b>2020 – 21: \$20m Expenditure Savings</b>		
Target	(20,000)	(20,000)
Labour	12,960	13,810
Non-Labour	5,040	6,190
<b>Net</b>	<b>(2,000)</b>	<b>-</b>

<b>2021 – 22: \$5.2m Expenditure Target</b>		
Target	(5,200)	-
<b>Net</b>	<b>(5,200)</b>	<b>-</b>

<b>Savings still to be Identified</b>		
Target	(7,200)	-

## Updated income figures within the 2021 – 2022 Draft Business Plan and Budget:

### Rates

- \$0.246m Draft Rating Policy
- \$115.23m Valuations, including new developments (as of 11 March 2021)

### Leasing

- \$0.2m Potential income on CLC building level 8 & 9 as staff have been relocated to other floors throughout CLC resulting in these two floors being vacant

### On-Street

- \$0.93m Change to assumptions of post-COVID recovery  
Draft Budget is modelled on an assumption of 90% recovery on pre- COVID levels, however data *from December 2020 to February 2021 shows an increase to this.*  
*Other identified revenue opportunities will be brought back to Council at a later date.*

## Updated Operating Income and Expenses:

- The original \$20m permanent reduction to our operating expenditure has been identified and reflected in the draft budget.
- Wholesale changes such as the further target of \$5.2m in order to achieve a breakeven operating position is not sustainable in the current environment.
- We will continue to seek sustainable, long term efficiencies and adjust through the budget reviews.
- This will ensure we “trade out” of the deficit position in a financially sustainable manner.

For 2021 – 2022	(\$'000s)	Parameters	Draft Budget	Variance
<b>Operating Income</b>				
Rates Revenues		121,123	121,190	67
Fees and Charges		72,955	74,208	1,253
Grants and External Funding		3,029	3,274	245
Other Income		1,028	1,216	188
<b>Total Income</b>		<b>198,134</b>	<b>199,888</b>	<b>1,754</b>
<b>Operating Expenses</b>				
Service Delivery		192,835	199,075	(6,240)
Strategic Projects		5,400	5,400	-
<b>Total Expenses</b>		<b>198,235</b>	<b>204,475</b>	<b>(6,240)</b>
<b>Operating Surplus / (Deficit)</b>		<b>(101)</b>	<b>(4,587)</b>	<b>(4,486)</b>

## Deficit position

The 2021 – 2022 Draft Budget results in an Operating Deficit position of \$4.6m, driven by:

- ACMA operating deficit of \$0.832m
- Removal of the 2021-22 \$5.2m operational expenditure target
- Income updates (as per previous slide)



Financial Indicator	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
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### Operating Position (Operating Income less Expenditure)

- Council has projected Operating deficits from 2021-22 through to 2023-24.
- Impacting this deficit is the Central Market Arcade (CMA), where Council will not generate the rental income from the existing Arcade while construction is underway. If the existing Arcade were to remain, our operating position over the long term would be worse off. In addition, with all else remaining constant, Council's capacity to borrow reduces and the projected borrowings breaches the Prudential Limits in 2030-31.

Operating Position	\$2m - \$10m	(4.6)	(4.8)	(6.6)	0.6	0.5	6.8	5.0	9.0	2.8	3.5
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### Borrowings (Total borrowings)

- There are no major investments in Income Generating Assets or Community Assets from 2022-23 other than the continuation of the CMA Redevelopment.
- Borrowings are required to fund our operations. This is a result of Council not generating enough cash flow from operations to fund the significant renewals required in the outer years of the plan (Adelaide Bridge, River Torrens Weir, Rundle UPark)
- Projected sales in the LTFP for underperforming assets are presented in the future fund reserve. These sales are used to reduce borrowings until investment opportunities are approved by Council. Utilisation of the future fund will result in an increase in borrowings.

Borrowings	Within Prudential Limits	98.5	110.3	98.8	81.4	86.7	82.5	76.8	106.7	149.8	191.8
		57%	64%	52%	43%	45%	42%	38%	52%	71%	89%
Cash Flow from Operations Ratio	Greater than 100%	107%	98%	96%	102%	100%	104%	104%	91%	86%	87%

*The LTFP dashboards are contained in Appendix A*

# Strategic Projects : Projects to be delivered

## Strategic Project Budget (expenditure) Parameters:

- **Strategic Project expenditure target not exceeding \$5.4m, based on 2020-21 commitments across multiple years**

## Projects being delivered:

\$5.0m of that expenditure target is already committed to for those Strategic Projects which have ongoing commitments / multi-year delivery:

- Adelaide Free Wi-Fi \$0.9m
- City Wide Waste and Recycling Program \$0.5m (+\$0.5m carry forward from 20/21)
- Splash \$0.81m
- Shared Arts & Cultural Grants (with State Government) \$0.05m
- Brownhill Keswick Creek \$0.42m
- City Events \$1.0m
- AEDA Digital Marketplace \$0.25m\*
- Melbourne, O'Connell & Hutt Street Masterplans \$0.2m\*
- Energy Assessment Pilot Program \$0.185m\*
- Strategic Property Investigations \$0.1m\*
- Welcoming City Places & Spaces \$0.025m

\$0.4m proposed to be held for emerging priorities and to be able to respond to City needs in a post-COVID recovery environment.

\* Projects commenced in 2020-21 to continue in 2021-22

## Key Question

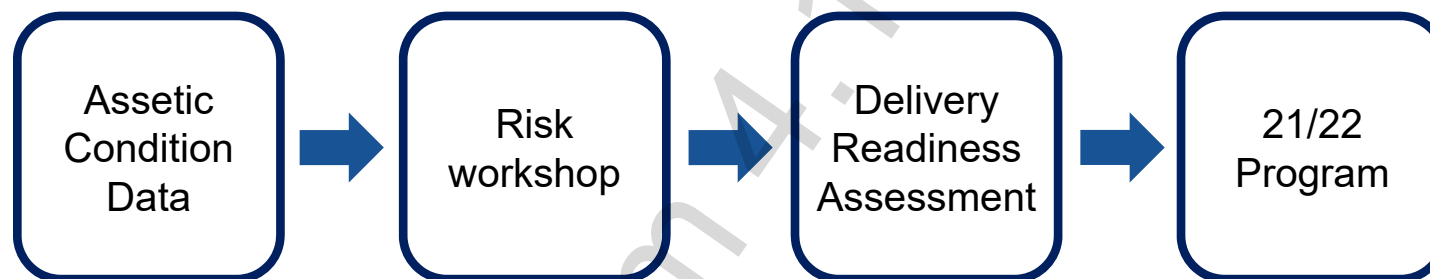
**What are Council Members' views on the prioritisation of the Strategic Projects allocation?**

## Capital Budget (expenditure) Parameters:

- Capital expenditure on Upgrade and Enhancement of Assets of \$19.2m.
- Capital expenditure on Renewal and Replacement of Existing Assets of \$27.6m.

## 21/22 Renewal Prioritisation Process:

- COVID Recovery Principles of risk based prioritisation
- Condition Data provided by Assetic
- Risk workshop on consequences of not delivering the project in 21/22
- Assess whether the project is delivery ready
- Integrated Asset Planning to align works in similar areas



## To note:

### Capital Expenditure on Renewal and Replacement of existing Assets contains other infrastructure items such as:

- Plant Fleet and Equipment
- IT renewals
- ACMA renewals
- Corporate overheads and WIP write-off

### Recovery Principles:

- Asset renewals will be prioritised based on audit condition and risk
- Asset enhancements will be delivered through partnerships
- We will seek Government funding for new infrastructure

## Providing better oversight for our capital works and projects:

- Clearer, succinct reporting on the delivery of projects
- Ensures key outcomes of projects are met and aligned with Council approvals
- Improved communication with our community on projects and the implications on our finances.

## What this would look like moving forward:

- Example project (hypothetical only): *Recreational sporting fields in Park 50*

Project	Previous years	Current year	Future years	Whole of Life (WOL)
<b>New Major Projects</b>		\$2.9m	\$1m	\$5m
<b>New Upgrades and Enhancements</b>		\$2.8m	\$0.1m	\$5m
<b>New Renewals</b>		\$2.7m	\$0.9m	\$5m
<b>Continuing Projects:</b>				
<i>Recreational sporting fields in Park 50</i>	\$0.8m	\$1.5m	\$2m	\$5.6

- New items for each financial year would still be listed separately and introduced so Council and the Community have oversight of new expenditure.
- Items that have previously been brought forward that have expenditure over multiple years are presented as continuing projects.

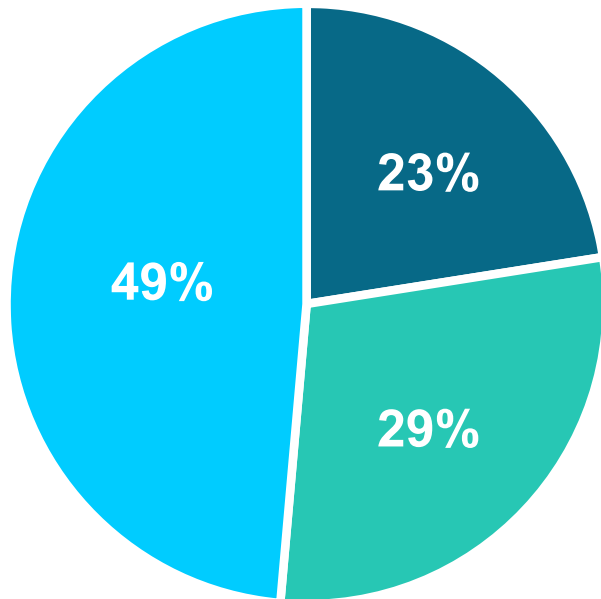
*Appendix C reflects this approach for the draft Assets and Infrastructure Program*

## To note:

- Major projects have delivery times that do not fit into a financial year
- Projects are approved based on their full delivery and “Whole of Life” talks to the full budget required to deliver the project and achieve desired outcome
- Whole of Life reduces the confusion regarding accounting for annual budgets for projects that take multiple years to deliver
- **Shifts the focus from carry overs to project delivery**

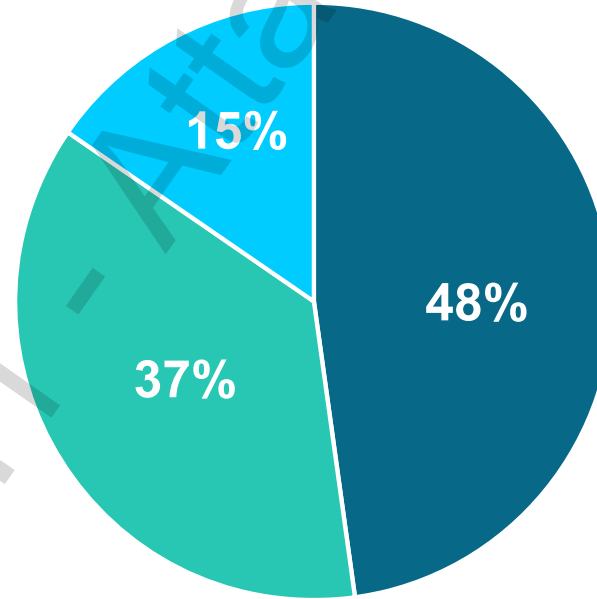
## What are we spending on?

<b>New this year</b>	\$16.11m
<b>New commenced previous years</b>	\$20.69m
<b>Renewals</b>	\$34.80m



## Funding pathways

<b>Cashflow from operations</b>	\$34.8m
<b>Borrowings for new capital</b>	\$26.7m
<b>Cashflow from Operations funding new capital</b>	\$11.23m



### To note:

- Asset renewals are necessary to ensure sustainability
- Funding of Asset spend is important to ensure intergenerational equity
- Note this only deals with the capital spend, need to start to consider ongoing operation costs of these capital spend

## What components are included in the LTFP for the 2021 – 22 BP&B:

▪ CMA Redevelopment	\$14.9m
▪ Moonta Street	\$1.8m
▪ Market to Riverbank	\$2.3m
▪ Christmas funding	\$0.15m
▪ Blackspot Funding	\$0.2m
▪ WIP write-off	(\$0.2m)

## How the Draft BP&B is being built for Upgrades and enhancement of assets:

▪ CMA Redevelopment	\$14.9m
▪ Moonta Street	\$1.8m
▪ Market to Riverbank	\$2.3m
▪ Christmas funding	\$0.35m*
▪ Blackspot Funding (2/3 funding)	\$0.2m
▪ Illuminate	\$0.3m*
▪ ACMA	\$0.38m*
▪ WIP write-off	(\$0.2m)

\* No current contractual obligation or Council decision

## Key Question

**What are Council Members' views on the 2021-22 draft budget for New, Upgrade and enhancements of Assets?**

Total \$19.2m (LTFP)

Expenditure Target Total \$19.2m

Total \$20.1m Draft BP&B

Draft Total - \$0.9m shortfall

+ \$18.4m continuing from 20/21

Continuing Projects are listed in Appendix C

## What components are included in the LTFP for the 2021 – 22 BP&B:

▪ Infrastructure renewals	\$20.0m
▪ Plant, Fleet and Equipment	\$1.7m
▪ IT renewals	\$1.6m
▪ ACMA renewals	-
▪ Corporate overhead	\$7.3m
▪ WIP write-off	(\$3.1m)

## How the Draft BP&B is being built for Renewal and replacement of assets:

▪ Infrastructure renewals	\$20.251m
▪ Plant, Fleet and Equipment (including commercial)	\$5.4m
▪ IT renewals	\$1.4m
▪ ACMA renewals	\$0.865m
▪ Corporate Overhead	\$6.6m
▪ WIP write-off	(\$1.362m)

## Key Question

**What are Council Members' views on the 2021-22 draft budget for Renewal and Replacement of Assets?**

Total \$27.6m (LTFP)\*

Expenditure Target Total \$27.6m\*

*\*67% Asset Sustainability Ratio  
adopted by Council*

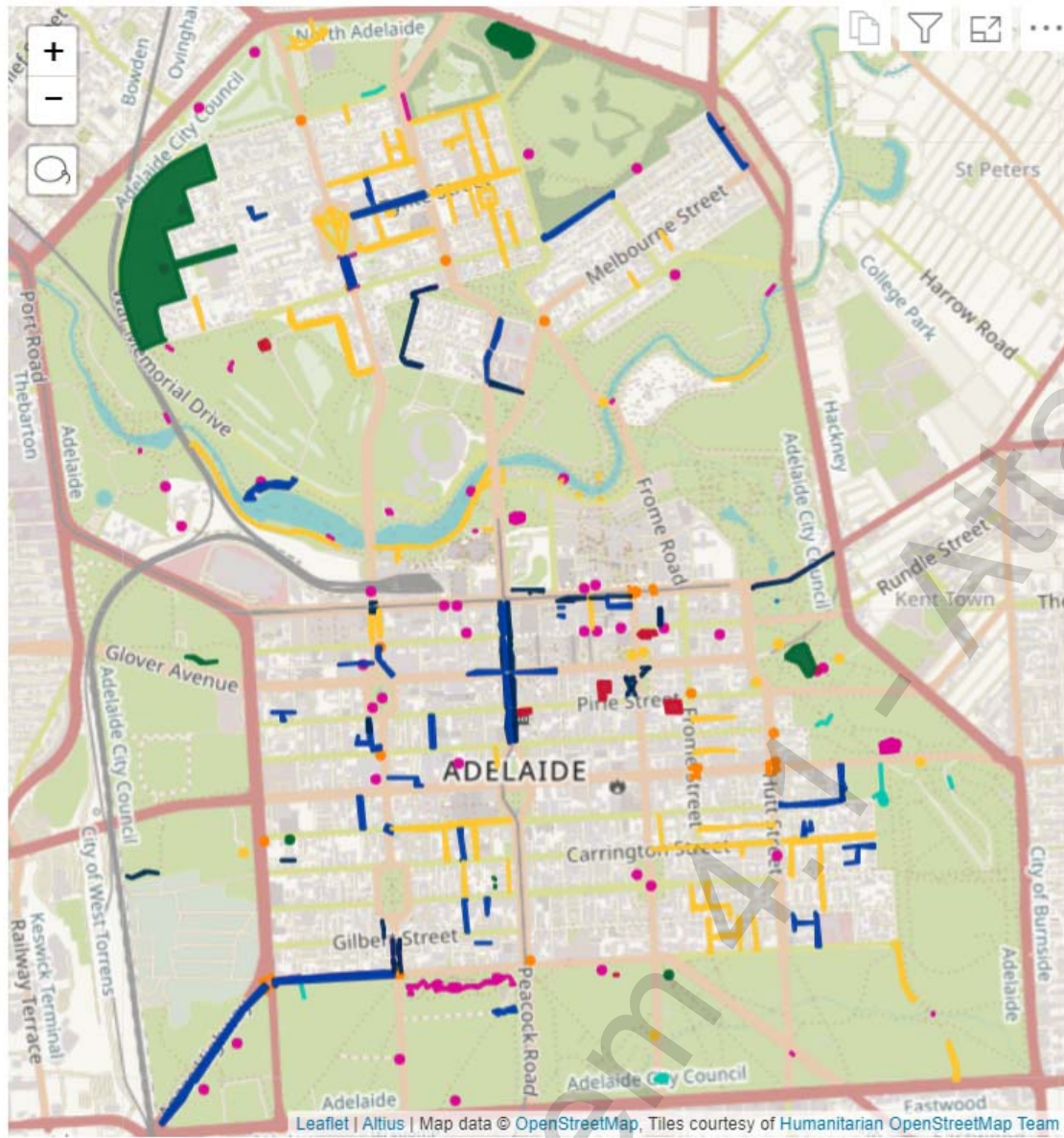
Total \$33.1m Draft BP&B

Draft Total - \$5.5m shortfall

+ \$3.0m continuing from 20/21

Continuing Projects are listed in Appendix C





### Asset Map

We will showcase the proposed 2021 – 2022 Asset and Infrastructure works delivery program through our interactive mapping software and project management tool.

*(Tables provided in Appendix C of reading pack)*

## Inform (25 March – 15 April)

- **Community engagement plays an important role in letting our community and stakeholders be informed on and have their say on the 2021 - 22 BP&B.**
  - As Council is proposing changes to the **Rating Policy**, there will be a focus on seeking community views on these changes during Stage 1 of consultation – with a particular focus on ensuring our ratepayers are informed and can provide their feedback.
  - The **Long Term Financial Plan** will be brought into the BP&B engagement process, as this will be made available at the same time for consultation – and there are natural fits between the two documents and the conversations to be had with our community.
  - **Summary brochures and fact sheets** for the Business Plan and Budget will be available to the community to simplify how our information is presented, as well as provide Council members a brief document to engage with their constituents
  - A **variety of tools** will be utilised, *taking into account restrictions related to consultation due to COVID-19*. Tools to be used include **YourSay Adelaide engagement hub** (*no registration required*), complemented by **hard copy surveys** which will be available to the community, **direct email surveys** through a variety of databases, **quick online polls**, a **social media campaign** and the offer of face-face / drop in opportunities where our current Engagement Policy allows. **Formal submissions** are also welcome and will be presented back to Council with the collated feedback. These tools are provided on top of the legislative requirements.
  - **Key Stakeholders** identified include: Residents (including Resident Groups), Commercial property owners, businesses (including Business/Precinct groups), young people, creative industries, multi-cultural / linguistically diverse groups and Aboriginal and Torres Strait Island Groups.
- Key Focus on providing relevant information to our community on how we are building the BP&B (income and expenditure parameters, external influences).
  - Engagement on Rating Policy and seeking community views on the proposed changes Council has made.
  - Required for minimum 21 days
  - Option to register your interest for Stage 2 and remain informed.
  - Focus on ratepayers.

## Consult (16 April – 10 May)

- Key Focus on providing the Draft BP&B document, including subsidiaries to the community and seek their views.
- Required for minimum 21 days.
- Focus on whole of community and key stakeholders.

**March – tonight**

- *Subsidiary (ACMA and AEDA) Business Plans and Budgets.*
- *Strategic Projects and Infrastructure and Assets workshops.*
- *Early community engagement focused on informing the community of early budget conversations and outcomes.*

**April**

- Approve Draft Business Plan & Budget and Long Term Financial Plan for consultation.
- 21 Day Public Consultation on Draft Business Plan and Budget Document.
- Consultation on Rating Policy changes.
- Economic Policy and Investment Strategy workshop.

**May**

- Special Council Meeting to receive feedback received during Public Consultation  
*Public hearing on consultation pending legislative changes (currently not allowed).*

**June**

- Adopt BP&B, LTFFP, Fees and Charges, and Rates.

**To note:**

Further workshops were requested by Council in December 2020, to help inform budget decisions:

- **Approach to infrastructure and property within the LTFFP:** included in SAMP, Strategic Property Review and LTFFP workshops / reports.
- **Economic Policy and Investment Strategy:** proposed workshop in April 2021.

## **Appendix A**

Draft LTFP dashboard

## **Appendix B**

Strategic Projects

## **Appendix C**

Assets and Infrastructure Program

- Major Projects
- Upgrades and enhancements
- Renewals
- Continuing Projects (At risk carry forwards from 2020 – 2021)

Item 4.1 - Attachment A

# Appendix A: Draft LTFP

Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Operating Surplus Ratio</b>	Operating surplus as a percentage of operating revenue	0%-20%	-2%	-2%	-3%	0%	0%	3%	2%	4%	1%	1%
<b>Net Financial Liabilities</b>	Financial liabilities and a percentage of operating income	Less than 80%	61%	69%	63%	48%	49%	46%	43%	53%	70%	84%
<b>Asset Sustainability Ratio</b>	Expenditure on asset renewals as a percentage of forecast required expenditure in the asset management plans	90%-110%	67%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Asset Test Ratio</b>	Borrowings as a percentage of total saleable property assets	Maximum 50%	29%	32%	25%	21%	22%	21%	19%	26%	36%	45%
<b>Interest Expense Ratio</b>	Number of times General Rates Revenue (less Landscape Levy) can service the annual interest expense	Maximum 10%	1.0%	1.2%	1.3%	1.2%	1.1%	1.1%	1.0%	1.2%	1.6%	2.1%
<b>Leverage Test Ratio</b>	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1.5 years	0.8	0.9	0.8	0.6	0.6	0.6	0.5	0.7	1.0	1.2
<b>Cash Flow fom Operations Ratio</b>	Operating income as a percentage of Operating Expenditure plus expenditure on renewal/replacement of assets	Greater than 100%	107%	98%	96%	102%	100%	104%	104%	91%	86%	87%
<b>Borrowings</b>	Total borrowings	Within Prudential Limits	98.5	110.3	98.8	81.4	86.7	82.5	76.8	106.7	149.8	191.8
			57%	64%	52%	43%	45%	42%	38%	52%	71%	89%
<b>Operating Position</b>	Operating Income less Expenditure	\$2m - \$10m	(4.6)	(4.8)	(6.6)	0.6	0.5	6.8	5.0	9.0	2.8	3.5
<b>Future Fund</b>	Proceeds from the sale of Council assets to fund new income generating assets or new strategic capital projects	N/A	2.2	8.7	33.7	59.2	59.2	59.2	59.2	59.2	59.2	59.2



## Strategic Projects

Project Title	Description	Draft Budget
<b>Adelaide Free Wi-Fi</b>	To provide a high-performing and ubiquitous wireless broadband network throughout the City of Adelaide, providing critical digital infrastructure for connecting communities, citizens and businesses, enabling an enhanced digital experience throughout the city.	\$0.9m
<b>City Wide Waste and Recycling Program</b>	Position City of Adelaide as a world class resource recovery leader through delivery of new waste and recycling systems in our operations, including the introduction of a new CityWide Waste and Recycling Program that supports our residents, businesses and community to transition to a zero-waste city.	\$0.5m (+\$0.5m carry forward from 20/21)
<b>Splash</b>	Champion creative responses to the challenges of our city through a series of innovative partnerships, precinct based activations, community led ideas, projects and experiments.	\$0.81m
<b>Shared Arts &amp; Cultural Grants (with State Government)</b>	Arts and Cultural Grants in partnership with the State Government to meet an identified need for the funding for the development, delivery and celebration of Aboriginal and Torres Strait Islander creative cultural practices in the City.	\$0.05m
<b>Brownhill Keswick Creek</b>	Creek remediation, wetland and creek realignment in Park 16s and 20. The Ongoing Multi-Year Stormwater Project is an initiative of the Cities of Unley, Adelaide, Burnside, Mitcham and West Torrens.	\$0.42m
<b>City Events</b>	\$0.5m to assist existing city-based events to expand to become city-wide (total \$1m over 2 years) along with a \$0.5m increase to the Events and Sponsorship Program for sponsoring new major events in the City (total \$1m over 2 years).	\$1.0m

## Strategic Projects (Projects commenced in 2020-21 to continue in 2021-22)

Project Title	Description	Draft Budget
<b>AEDA Digital Marketplace</b>	Provide all city business the opportunity to transact and promote their products or services direct to local, interstate or international consumers. <i>(Part of the City Business Stimulus Program adopted in December 2020)</i>	\$0.25m
<b>Melbourne, O'Connell &amp; Hutt Street Masterplans</b>	Preparation of Master Plans for Melbourne Street, O'Connell Street and Hutt Street. The plans will identify short, medium and long term actions to guide future investment in these streets, and include engagement with businesses and the local community.	\$0.2m
<b>Energy Assessment Pilot Program</b>	To assist small businesses with mitigating their energy costs. <i>(Part of the City Business Stimulus Program adopted in December 2020)</i>	\$0.185m
<b>Strategic Property Investigations</b>	Progress the implementation of the Strategic Property Review including detailed investigations / business case development, associated with site disposal, re-purposing and redevelopment of assets.	\$0.1m
<b>Welcoming City Places &amp; Spaces</b>	For community engagement to understand the needs and wants of our city of multicultural communities.	\$0.025m



## Major Projects

Project Title	Previous years	Current year	Future years	Whole of Life (WOL)
Moonta Street	\$1.5m	\$2.5m	-	\$4.0m
Market to River Bank - Bentham & Pitt St	\$1.2m	\$5.15m	-	\$6.35m
Central Market Arcade Redevelopment (\$27.74m construction + \$1.39m contingency (if required))	-	\$14.939m	\$14.188m	\$29.127m

## Upgrades and Enhancements

Project Title	Previous years	Current year	Future years	Whole of Life (WOL)
Blackspot Project - Jeffcott Street/Montefiore Hill Intersection Improvements	-	\$0.09m	-	\$0.09m
Blackspot Project - Pulteney Street/Angas Street Intersection Improvements	-	\$0.143m	-	\$0.143m
Christmas Funding	-	\$0.35m	-	-
Illuminate	\$0.3m	\$0.3m	\$0.3m	\$0.9m
ACMA Capital	-	\$0.38m	-	-
WIP Write-off	-	(\$0.2m)		

## Renewals

Bridges	Draft Budget
Assorted Design works and Urgent Works	\$0.3m
Footbridge Program	\$0.122m

Buildings	Draft Budget
Assorted Design works and Urgent Works	\$0.334m
CCTV Network Renewal and Compliance Program	\$1.0m
North Adelaide Golf Links Clubhouse and Horticulture Hub - AC Renewals	\$0.03m
Glover South Shelter Shed And Toilet Renewal	\$0.380m
Rymill Park Kiosk & Boat Store Renewal	\$0.2m
Town Hall Fire Panel Renewal	\$0.270m
Rundle Lantern rehabilitation works	\$0.05m
Town Hall Façade Conservation Works (Stage 1)	\$2.0m
Wyatt Street Car Park - Lift Renewals and Roofing Works	\$1.2m
Pirie/Flinders Upark Fire Compliance Remediation Works	\$0.05m

## Renewals

Pathways	Draft Budget
Assorted Design works and Urgent Works	\$0.2m
Alfred Street (south side) - Mary Street to Maud Street	\$0.035m
Botanic Road (south side) - Dequetteville Terrace to East Terrace	\$0.255m
Brougham Place (north side) - Palmer Place to Australia Lane	\$0.135m
Mellor Street - (east & west sides) - Weymouth St to Dead End	\$0.051m
Morphett Street (east & west sides) - Gilbert Street to South Terrace	\$0.323m
North Terrace West (north & south sides) - Under Morphett Bridge	\$0.117m
North Terrace East - Abutting Government House	\$0.832m
Hindmarsh Square (internal paths - east & west sides)	\$0.230m
Pennington Terrace (North side) - Eastern & Western ends	\$0.286m
Synagogue Place - Rundle Street to Dead End	\$0.061m
Avoca Street - Whitmore Square to Gilbert Street	\$0.005m
Elder Park behind Convention Centre	\$0.163m
Park 23 - Wirrarninthe - GS Kingston Park	\$0.038m
Park 7 - Kuntingga - The Olive Groves	\$0.005m
King William Street (east & west sides) - North Terrace to Victoria Square	\$0.182m
North Terrace (south side) - Gawler Place to Frome Street	\$0.069m

## Renewals

Kerbs and Water Table	Draft Budget
Assorted Design works and Urgent Works	\$0.1m
DDA Compliant Access Ramp Renewal Project	\$0.05m
Jeffcott Street (east and west sides) - Wellington Square to Montefiore Road (Stage 1/2)	\$0.776m
Synagogue Place (east and west sides) - Rundle Street to Dead End	\$0.061m
Morphett Street (east & west sides) - Gilbert Street to South Terrace	\$0.113m
Brougham Place (north side) - Palmer Place to Australia Lane	\$0.069m
South Terrace (north side) - West Terrace to Morphett Street	\$0.066m

Lighting and Electrical	Draft Budget
Assorted Design works and Urgent Works	\$0.05m
Public Realm CCTV Camera Renewals (various locations)	\$0.1m
Above Ground Electrical Switchboard Renewals (various locations)	\$0.125m
Underground Electrical Conduit and Switchboard Renewals (various locations)	\$0.496m
Street Lighting LED Renewals (various locations)	\$0.540m
Street Lighting City Safety Renewals (various locations)	\$0.310m

## Renewals

Park Lands and Open Spaces	Draft Budget
Assorted Design works	\$0.04m
Park 1 North Golf Course renewal of water supply line	\$0.2m
Park 5 - Dog Park Restoration Works	\$0.05m
Park Lands Renewals (various locations)	\$0.1m
Frew Street - Renewal of Rain Garden	\$0.015m

Roads	Draft Budget
Assorted Design works and Urgent Works	\$0.25m
Currie-Grenfell Corridor Serviceability Works	\$0.15m
Andrew Street - Morphett Street to Bowen Street	\$0.052m
Anzac Highway South Bound Carriageway - South Terrace to Greenhill Road	\$0.412m
Figtree Court - Buxton Street to Dead End	\$0.06m
King William Road North bound Carriageway - Pennington Terrace to Kermode Street	\$0.034m
King William Road South Bound Carriageway - Brougham Place to Kermode Street	\$0.121m
King William Street Bus Bays - North Terrace to Flinders Street	\$0.206m
Mann Terrace - Kingston Terrace East to Dead End	\$0.123m
Unknown Name Lane - Toms Court to Dead End	\$0.153m

## Renewals

Roads (continued)	Draft Budget
Austin Street - North Terrace to Pulteney Street	\$0.075m
Dukes Lane - Allen Street to Gladstone Street	\$0.051m
Fisher Place - Gawler Place to Dead End	\$0.051m
Gladstone Street - Carrington Street to Dead End	\$0.016m
Jeffcott Street Car Parking Bays - Wellington Square to Montefiore Road (Stage 1/2)	\$0.261m
Kingston Terrace - Lefevre Terrace to Jerningham Street	\$0.152m
Mansfield Street - Gover Street to Tynte Street	\$0.03m
Market Street - Gouger Street to Wright Street	\$0.044m
Mellor Street - Waymouth Street to Dead End	\$0.016m
Morphett Street - Currie Street to Hindley Street (Eastern Carriageway) <i>*[R2R funded - \$109K]</i>	\$0.109m*
Morphett Street/Gouger Street Intersection	\$0.059m
Myers Street - Sturt Street to Gilbert Street	\$0.076m
Norman Street - Sturt Street to Gilbert Street	\$0.03m
Oakley Street - Grote Street to Gouger Street	\$0.04m
O'Halloran Lane - O'Halloran Street to Dead End	\$0.018m
Park 1 - Par 3 Golf Course Car Park	\$0.121m
Park 21 - Veale Gardens Car Park	\$0.048m

## Renewals

Roads (continued)	Draft Budget
Phillip Street - Clarendon Street to Light Square	\$0.027m
Prince Court & Albert Street - Waymouth Street to Gray Street	\$0.02m
South Terrace - West Terrace to Morphett Street * <i>[R2R funded - \$146K]</i>	\$0.425m*
Synagogue Place - Rundle Street to Dead End	\$0.017m
Tynte Street - Wellington Square to Mansfield Street	\$0.067m
Unknown Name Lane - Gawler Place to Dead End	\$0.021m
Vincent Street & Vincent Place - Gilles Street to South Terrace	\$0.041m
Wilson Street & Tomsey Court	\$0.036m
Young Street - Waymouth Street to Franklin Street	\$0.045m



## Renewals

Stormwater	Draft Budget
Assorted Design works and Urgent Works	\$0.22m
Park 16 - Culvert Renewal	\$0.051m
Park 16 - Open Channel Renewal	\$0.13m
Barton Terrace West - Stormwater Pipe Re-lining	\$0.077m
Victoria Park - Stormwater Pipe Renewal	\$0.02m
Unley Road - Stormwater Pipe Renewal	\$0.149m
Stormwater Pit Renewals (various locations)	\$0.05m
Stormwater Pit Lid Renewals (various locations)	\$0.1m
Adelaide Weir - Structural Investigation and Preliminary Design (Stage 1)	\$0.3m
Anzac Highway - Stormwater Pipe Re-lining	\$0.415m
South Terrace - Stormwater Pipe Re-lining	\$0.03m

## Renewals

Traffic Signals	Draft Budget
Cables and Conduit Renewals (various locations)	\$1.126m
Controller Box Renewals (various locations)	\$0.456m

Urban Elements	Draft Budget
Assorted Design works and Urgent Works	\$0.08m
Public Art Refurbishments (various locations)	\$0.269m
Recreational Asset Renewals (various locations)	\$0.15m
Park Land and Street Furniture Renewal Program (various locations)	\$0.295m
Street Sign Renewals (various locations)	\$0.005m
Minor Structure Renewals (various locations)	\$0.34m
Litter Bin Renewals (various locations)	\$0.01m
Water Feature Renewals (Veale Gardens and Pinky Flat)	\$0.34m

## Renewals

Plant, Fleet & Equipment	Draft Budget
Minor Plant	\$1.411m
Major Plant	\$1.483m
Commercial Renewals	\$2.801m

Other Renewals	Draft Budget
IT Renewals	\$1.395m
ACMA Renewals	\$0.865m
Corporate Overhead	\$6.646m
WIP Write-off	(\$3.063)m

## Continuing Projects

The below projects / infrastructure items are currently DRAFT and are at risk in 2020 – 2021 for continuing in 2021-2022. Council will review a final listing, for adoption in the final Business Plan and Budget through the QF3 Finance Report.

New, Upgrade and Major Projects – carry forward risk	Previous years	Current year	Future years	Whole of Life (WOL)
E-W Bikeways	\$0.2m	\$5.8m	-	\$6.0m
N-S Bikeways	\$3.8m	\$2.2m	-	\$6.0m
Gawler UPark Façade	\$3.3m	\$1.7m	-	\$5.0m
Hindley Upgrades	\$0.2m	\$0.1m	-	\$0.3m
Hutt St Upgrades	\$0.1m	\$0.3m	-	\$0.4m
City Greening	\$0.4	\$0.3m	-	\$0.3m
City Skate Park	\$2.8m	\$0.2m	-	\$3.0m
Whitmore Square Greening	\$0.7m	\$0.2m	-	\$0.9m
North Terrace Public Realm	\$1.9m	\$0.2m	-	\$2.1m
Blackspot Hindley/Gray St	\$0.4m	\$0.2m	-	\$0.6m
Whitmore Square Safety	\$0.7m	\$0.1m	-	\$0.8m
South West Community Centre	-	\$1.5m	-	\$1.5m
Place of Reflection		\$0.3m	-	\$0.3m
Place of Courage	-	\$0.07m	-	\$0.07m

## Continuing Projects

Renewals and Replacement of Assets – carry forward risk	Previous years	Current year	Future years	Whole of Life (WOL)
Brougham Pl, Jeffcott St and footpaths work	\$2.0m	\$0.7m	-	\$2.7m
Plant & Fleet	\$1.9m	\$0.6m	-	\$2.5m
Francis St	-	\$0.4m	-	\$0.4m
Assorted Design projects	\$0.8m	\$0.3m	-	\$1.1m
Lighting & Electrical Renewal	\$0.1m	\$0.3m	-	\$0.4m
Bridge Renewal Program	-	\$0.3m	-	\$0.3m
Leigh St footpath	-	\$0.2m	-	\$0.2m
Public Art refurbishment	\$0.1m	\$0.1m	-	\$0.2m
Reinstatement project	\$0.1m	\$0.1m	-	\$0.2m
Chesser Arbour	-	\$0.1m	-	\$0.1m
Torrens Lake Earth retaining structures	\$0.05m	\$0.05m	-	\$0.1m

# Long Term Financial Plan Update

**ITEM 4.2 19/03/2021**  
**Audit Committee**

Strategic Alignment - Enabling Priorities

**Program Contact:**  
Grace Pelle, Manager, Finance &  
Procurement 8203 7343

2020/01920  
Public

**Approving Officer:**  
Justin Lynch, Chief Operating  
Officer, Corporate Services

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## EXECUTIVE SUMMARY

This report will provide a status update on the preparation of the Long Term Financial Plan for 2021/22 – 2030/31

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## RECOMMENDATION

### THAT THE AUDIT COMMITTEE

1. Notes the report and provides feedback on the Draft Long Term Financial Plan 2021-22 to 2030-31 as contained in Attachment A to Item 4.2 on the Agenda for the meeting of the Audit Committee held 19 March 2021.

## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities
Policy	This report is in line with the financial management regulations.
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Not as a result of this report
Opportunities	Not as a result of this report
20/21 Budget Allocation	Not as a result of this report
Proposed 21/22 Budget Allocation	Not as a result of this report
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
20/21 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report



## DISCUSSION

### 1. Long Term Financial Plan – Written Document

- 1.1. Long Term Financial Plans (LTFP) have been a requirement of the financial management regulations since 2005. The compliance elements regarding these plans requires the preparation of a full set of financial statements for a forward looking 10 year period.
- 1.2. City of Adelaide has met this compliance with the inclusion of these projected financials in the Business Plan and Budget process on an annual basis.
- 1.3. For 2021/22, it is proposed that a separate, written document accompany the set of 10 year projected financials in order to be able to be more descriptive about the assumptions, risks and opportunities included in the forward planning.
- 1.4. **Attachment A** is the draft version of the written LTFP to date.
- 1.5. The LTFP contains the following:
  - 1.5.1. Statement on Financial Sustainability (regulatory requirement)
  - 1.5.2. Details regarding any financial sustainability initiatives Council has endorsed
  - 1.5.3. Detailed description of assumptions used to formulate the projections
  - 1.5.4. Detailed discussion regarding risks and opportunities considered in preparing the projections
  - 1.5.5. Full set of financial statements for a 10 year projected period (regulatory requirement)

### 2. Long Term Financial Plan – Timing & Consultation

- 2.1. It is intended to run the LTFP parallel with the 2021-22 Business Plan and Budget from a consultative process as it is subject to public consultation requirements.
- 2.2. Due to the timelines associated with Council approval of a draft document by 6<sup>th</sup> April, the version attached is in an initial draft format and provided to seek feedback regarding content and detail of the document.

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## DATA AND SUPPORTING INFORMATION

Nil

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## ATTACHMENTS

**Attachment A** – Draft Long Term Financial Plan 2021-22 to 2030-31

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- END OF REPORT -

# LONG TERM FINANCIAL PLAN

2021-22 TO 2030-31

Prepared February 2021



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## EXECUTIVE SUMMARY

The City of Adelaide's Long Term Financial Plan (LTFP) is a 10 year forecast of Council's financial performance and position. The plan is based on the Council's 2020-2024 Strategic Plan, anticipated service levels and social, economic and political indicators. It forms part of Council's Strategic Management Plans and is integral to Council's Strategic Framework and financial planning.

The LTFP assists Council in monitoring the City of Adelaide's financial sustainability: Council's ability to deliver services and maintain/upgrade the City's infrastructure in a manner that is fair and equitable across generations.

This document outlines the context of the LTFP and importance of Council's financial sustainability. It explains the approach to preparing and reviewing the LTFP, key assumptions and risks, and the measures used to manage and monitor the Council's financial sustainability.

Council has recently reviewed the LTFP as part of the 2020-21 Business Plan and Budget process with consideration to a number of factors including the financial and economic implications of the COVID-19 pandemic.

COVID-19 had an immediate and profound impact on the City and Council's operations and income. A decline in City visitation, social distancing restrictions and the weakened economic environment have significantly reduced forecast income from parking, the Aquatic Centre, Town Hall events and property tenants. The potential decline in property valuations may also impact rate revenue across the next three to five years.

Council has been proactive in responding to the challenges presented by COVID-19, including showing leadership in implementing its City Support Packages to aid City recovery. It has initiated a fundamental reappraisal of Council's services to reshape the organisation and implement a \$20 million reduction in operational expenditure. Council has also adopted Recovery Principles to assist with future decision making. In addition, a future fund has been established to reinvest the proceeds of property sales identified in the strategic property review into future income generating assets and strategic capital projects.

The key financial ratios indicate Council will be in a stable financial position over the term of the LTFP after a significant deficit in 2020-21 due to the impact of COVID-19 and following the implementation of its organisational reform.

Council is forecast to have an operating surplus ratio of -2% in 2021-22 and progressively move to the target range of 0-20% by 2024-25, remaining in that range over the term of the LTFP.

The Net Financial Liabilities ratio shows Council debt will remain within its target of below 80% of operating income across the duration of the LTFP, with the exception of year 10 based on assumptions regarding renewal funding. Funding for the major investment in known projects such as the Adelaide Central Market Arcade in 2021-22 and 2022-23, and the renewal of significant assets between 2028-29 and 2029-30 has been incorporated within the ratio.

The Asset Renewal Funding ratio reflects a strong commitment from Council to invest in maintaining the City's infrastructure. Council is taking a risk-based approach to manage cash flow and capacity in the wake of COVID-19, which focuses on the delivery and completion of committed projects and asset renewals based on condition audits. As a result, the ratio will fall outside of the target range in 2020-21 and 2021-22 but will then be maintained at 100% for the remaining duration of the LTFP.

## STRATEGIC CONTEXT

Under the *Local Government Act 1999* Council must develop and adopt Strategic Management Plans' which identify the Council's objectives, how a Council intends to achieve its objectives, how they fit with the objectives of other levels of government, performance measures and estimates of revenue and expense.

The City of Adelaide's Strategic Management Plans comprise:

- 2020-2024 Strategic Plan
- Long Term Financial Plan
- Infrastructure and Asset Management Plans

The Long Term Financial Plan (LTFP) is a 10 year forecast of Council's financial performance and position based on its strategic plans, anticipated service levels and social, economic and political indicators. It provides guidance to support Council decision making and confirm that Council has the financial capacity to deliver services, maintain assets and achieve its strategic objectives in a financially sustainable manner.

The LTFP is an integral part of the Council's Strategic Framework. It is built upon the 2020-21 Business Plan and Budget and is aligned the City of Adelaide's 2020-2024 Strategic Plan and the Infrastructure and Asset Management Plans.

### FRAMEWORK TO BE UPDATED

#### Council's Strategic Framework



The LTFP is reviewed quarterly and updated on an iterative basis to reflect the latest available information. Key outputs include a comprehensive set of financial indicators and forecast financial statements in accordance with legislative requirements.

## STATEMENT ON FINANCIAL SUSTAINABILITY

### Financial Sustainability

The Australian Local Government Associations have adopted the definition of financial sustainability as follows:

*"A council's long-term financial performance and position is sustainable where planned long-term service infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."*

It is based on the principles that:

- The current generation are able to "pay their way" by funding the services and infrastructure they utilise
- Investments in new infrastructure and assets funded through borrowings will not over burden future generations.

Financial Sustainability is monitored by three key ratios:

- **Operating Surplus Ratio** which monitors the affordability of Council's services relative to its operational income
- **Net Financial Liabilities Ratio** which monitors the affordability of Council's borrowings relative to its operational income
- **Asset Renewal Funding Ratio** (also known as the Asset Sustainability Ratio) which monitors the rate at which Council is renewing its assets relative to its use of the assets.

In addition to these core ratios, Council has a suite of ratios it uses to monitor its performance and sustainability.

The role and purpose of each ratio is discussed in further detail on [page 14](#).

### Implications of COVID-19

Throughout 2020 we have faced the biggest disruption to our community in one hundred years, a global pandemic which has dramatically changed our City. Like all City businesses, Council operations have not been immune - the absence of people from mid-March 2019 has seen our income immediately and significantly impacted.

COVID-19 is expected to have significant impact on Council's financial performance which is expected to impact the market for some time to come. It is important that the focus on financial sustainability while recovering from this pandemic is retained. Sustainable decision making is necessary to ensure the longevity of our community to not only recover from the pandemic and its impacts but to also capitalise on the opportunities presented to ensure the future of our community for generations to come.



## Initiatives to Support Financial Sustainability

To build a strong foundation for long term financial sustainability and to respond to the financial challenges of COVID-19, Council has recently

1. Adopted Recovery Principles to guide its future decision making
2. Committed to reducing its operational expenditure by \$20 million in the 2020-21 financial year and Reshaping our Organisation, including fundamental reappraisal of the role we play in driving public value through the delivery of our services
3. Established a future fund to reinvest the proceeds from property sales into future income generating assets and strategic capital projects.

### Recovery Principles

Council has adopted Recovery Principles assist our future decision making in the context of COVID-19 and city recovery and to support our long term financial sustainability. These principles seek to ensure an equitable approach to rating, a prudent approach to the utilisation of borrowings and proceeds from the sale of assets, and sustainable investment in our infrastructure and delivery of services.

- Our rates, fees and charges approach is fair and equitable
- Financial borrowings adjusted to stimulate growth
- Proceeds from selling assets will build a future fund
- Asset renewals will be prioritised based on audit condition and risk
- Asset enhancements will be delivered through partnerships
- We will seek Government funding for new infrastructure
- Our service delivery will reflect the needs of the community
- Investment is prioritised to support recovery.

### Reshaping our Organisation

Council has commenced a fundamental reappraisal of the role we play in driving public value through the delivery of our services, while ensuring we continue to fulfil our leadership role as a Capital City Council and our legislative requirements as a local government entity. Central to this is the recovery principle that 'Our service delivery will reflect the needs of the community'.

As an outcome of this exercise, a permanent \$20 million saving in operating expenditure will be identified to build a strong foundation for financial sustainability into the future. The 2021-22 Business Plan and Budget and Long Term Financial Plan reflect these savings.

### Future Fund

A future fund has been established to enable Council to fund the purchase of future income generating assets and to invest in strategic capital projects from the sale proceeds of Council

assets. Requests to utilise funds from the reserve fund will be based on a business case that clearly demonstrates that the financial return to Council outweighs the annual loan funding costs. Council approval will be required for all requests to utilise these funds.

## BASIS OF PREPARATION

This document presents the Long Term Financial Plan (LTFP) for the years 2021-2022 to 2030-2031. The basis of the LTFP is consistent with the Financial Statements 30 June 2020 and the 2020-2021 Business Plan and Budget adopted by Council and any authorised amendments. The LTFP has been based on the 2020-2024 Strategic Plan and the Strategic Infrastructure and Asset Management Plan projections for new, upgraded and renewal of assets for 2022 to 2031.

The LTFP is a projective report based on information known at the time. As such the process of review of the LTFP is iterative and can change as new or updated information is presented.

The LTFP is developed and adopted in consultation with Council each year as part of the annual Business Plan and Budget process. The impacts of quarterly revisions to the budget will be noted through the Quarterly reporting process to both Council and Audit Committee, and formally adopted in the following years' business plan and budget.

The LTFP is a projection of forward performance with consideration of the following:

- Council's 2020-2024 Strategic Plan and Strategic Infrastructure and Asset Management Plans, including planned investment in new projects and infrastructure
- The social, economic and political environment including indicators such as population growth, inflationary growth and interest rates
- Anticipated changes in future service levels that reflect the needs and expectations of the community
- Funding and expenditure levers available to Council, including revenue and financing guidelines such as Council's Rating Policy and Treasury Policy
- Revenue opportunities and cost drivers, including the impact of climate change and other factors on the City
- A rigorous assessment of our current financial position and financial sustainability.

## KEY ASSUMPTIONS

A summary of assumptions underpinning this LTFP:

- Rates valuation growth, on average, is assumed in line with forecast inflation, excluding growth from new developments
- Fees and charges are generally in line with forecast price indexation
- Salaries and wages forecasts are based on current and expected enterprise agreements
- Other revenue and expenditure growth, in general, is assumed in line with forecast price indexation
- Interest rates are relative to market expectations
- Capital expenditure is in line with the Infrastructure and Asset Management Plans.

Further detail regarding these and other assumptions is outlined below.

### Price Indexation

The Local Government Price Index (LGPI) produced by the South Australian Centre for Economic Studies and the Consumer Price Index (CPI) for Adelaide produced by the Australian Bureau of Statistics are the two most relevant indicators of price indexation for the City of Adelaide. However, the medium term estimates (3-5 years) of both are limited so consideration is given to both historical data, short term estimates (1-2 years) and medium term estimates for CPI more broadly across Australia.

The current LTFP has assumed inflation of 1.25-2% per annum based on current forecast indicators which include the economic impact of COVID-19. This forecast will continue to be reviewed as greater analysis becomes available in the wake of COVID-19, with the LTFP adjusted accordingly.

### Rates

Rates income is primarily dependent upon three key variables:

- The rate in the dollar for residential and non-residential property
- The increase/(decline) in property values (based on annual assessed value)
- Growth from new developments and capital improvements.

As Council has frozen the rate in the dollar for the past seven consecutive years, rates growth is dependent on valuation increases and growth from new developments and capital improvements.

Years 2-10 of the LTFP currently assume rates growth of 2.25-3% through a combination of:

- Growth from new developments and capital improvements of 1%

- An uplift in property valuations and/or a change in the rate in the dollar to achieve 1.25% - 2% growth in existing rates revenue in line with the current price index forecast

This assumption will be monitored as further analysis on the price index and property valuations becomes available in the wake of COVID-19.

### Fees and Charges

There are three principle types of fees charged by Council:

- General fees and charges set by statute
- General fees and charges set by Council or under delegation
- Commercial fees and charges set under delegation.

Statutory charges, such as fees associated with services regulated under the *Road Traffic Act 1961*, the *Planning, Development and Infrastructure Act 2016*, the *South Australian Public Health Act 2011*, the *Food Act 2001* and the *Dog & Cat Management Act 1995* reflect dollar increments or percentage increases as specified by the respective statute.

Fees and charges set by Council or under delegation are reviewed each year in conjunction with the development of the Business Plan and Budget. The review ensures that the fees:

- Reflect (or move progressively toward) the cost of the services delivered
- Are comparable with market rates, where appropriate
- Take into account benefit derived by users of community facilities
- Are consistent with directions articulated through our existing policies or plans
- Are consistent with our Strategic Financial Parameters

For the purposes of the LTFP, it is assumed that fees and charges will increase on average in line with the price index (presently assumed to be 1.25-2%) unless there are specific circumstances that will have a material impact on the value of the fees and charges, such as changes in property tenancies associated with the Adelaide Central Market Arcade redevelopment.

Fees for Council's commercial operations including commercial properties, the UParks, Adelaide Aquatic Centre and North Adelaide Golf Course will be subject to market conditions and commercial considerations on a year by year basis. However, across the medium to long term, these should align to the average movement in the price index.

### Grants, Subsidies and Contributions

Annual grants, subsidies and contributions are assumed to continue for the duration of the LTFP and indexed in line with the price index (presently 1.25-2%) unless agreements are known to expire or change.

Where grants, subsidies and contributions are for specific projects or related to specific events, they will be recognised in line with the relevant accounting standards.

## Employee Costs

Salaries and wages forecasts are based on current and expected enterprise agreement outcomes. That is a 2% increase is assumed for waged, salaried and UPark staff while a 2.5% increase is assumed for staff working under the Leisure enterprise agreements. Actual increases will be dependent upon future enterprise agreement negotiations, with new agreements reflected in the LTFP upon the completion of negotiations. Increases in the Superannuation Guarantee are consistent with Australian Taxation Office advice.

## Contractual Expenditure and Materials (including Utilities)

Expenditure is generally increased by the price index unless there are specific costs of a material value that are known or forecast to vary significantly from the price index (e.g. electricity contract, hard waste levy). **Service Delivery**

City of Adelaide is responsible for the delivery of a wide range and variety of service offerings to its ratepaying community and visitors alike. The LTFP assumes that the service delivery remains unchanged and delivered at the same consistent levels as detailed in the Service Directly. Any changes to this delivery are required to be resolved by Council and will impact the LTFP in the future should the service change have financial implications.

## Asset Maintenance, Renewal and Upgrade

City of Adelaide is responsible for the management, operation and maintenance of the City's infrastructure, a diverse property portfolio and plant, fleet and equipment.

Infrastructure and Asset Management Plans, which form part of Council's Strategic Management Plans are reviewed in detail every four years to identify asset condition and consumption to assist in planning maintenance and requirements. Detailed modelling enables the Council to optimise maintenance and renewal expenditure, and ensure asset sustainability. For 2020, the plans will also consider new infrastructure needs to meet future community service expectations are used to secure asset sustainability.

Forecast expenditure in the LTFP is presently based on the existing Infrastructure and Asset Management Plans prepared in 2016, overlaid with the latest modelling from condition audits. The LTFP will be updated as the detailed Infrastructure and Asset Management Plans are finalised in the coming year.

## Major Projects

Major projects including property developments such as the Central Market Arcade redevelopment and 88 O'Connell Street are incorporated in the LTFP where a Council decision or commitment has been made to progress the projects. Capital and operational expenditure and income is incorporated after extensive modelling, and where capital expenditure is in excess of \$4m, are subject to a prudential report prior to commencement to consider the impact on the LTFP.

## Depreciation, Amortisation and Impairment

Depreciation is informed by Infrastructure and Asset Management Plans and reflects increases in valuations and new asset movements.

Amortisation and impairments are determined by condition audits and revaluations. This has not been factored into the LTFP.

### Interest Rates

Council's services, projects and infrastructure works are predominantly funded through rates, fees and charges, and grants and subsidies. Borrowings are principally utilised for major infrastructure projects, including city shaping projects such as the development of 88 O'Connell Street and Central Market Arcade, and commercially focused projects with a financial return on investment.

City of Adelaide has assumed an interest rate of 1.35-2% across the LTFP based on its existing borrowing rate, market indicators, and an allowance for an increase in future interest rate rises. The rate is reviewed quarterly and is based on the latest information and indicators.

### Other

Other revenue and expenditure growth, in general, is assumed in line with forecast price indexation

### Council's Subsidiaries

City of Adelaide has three subsidiaries: Adelaide Central Market Authority; Adelaide Economic Development Agency; and Adelaide Park Lands Authority. It is assumed that the operations of each subsidiary will be funding neutral (i.e. breakeven) from 2022-23 onwards.

Capital funding requirements for the Adelaide Central Market Authority are currently being assessed from 2022-23 onwards, and will be incorporated as they are identified.

## Risks and Opportunities

Although the Long Term Financial Plan is based upon the latest available information, it is a future projection and is therefore subject to risk. It cannot anticipate inherent risks such as unforeseen economic, political, environmental and market changes and so on this basis should be considered as a guide to future actions and opportunities, a tool for Council to assess the long-term financial sustainability of its decisions.

### Issue1 : Council Rate Growth

Forecast growth in rate revenue has a material impact on the LTFP, as the growth factor is incorporated into the base for property valuations in following year. Any changes to the growth forecast will impact on the outer financial years.



COVID-19 has had a significant impact on the economy which may flow through to the property market and property valuations. Investment in new developments and capital improvements may also soften due to the weaker economic conditions.

Council Action:

Market indicators, combined with analysis from the Council rates and valuations team, will be closely monitored in the coming months and assumptions for rates growth will be updated once reliable data is available.

### **Issue 2: Government Legislation**

A Rates Monitoring System is currently under consideration by the South Australian Parliament following the introduction of the Statutes Amendment (LG Review) Bill by the South Australian Government. The potential impact of such legislation is still being clarified, however it could limit Council's capacity to increase rates in response to emerging financial challenges.

Council Action

To participate in working with LGA and SA Government working parties to ensure a fair and equitable rating system is maintained to enable sustained delivery of community services.

### **Issue 3: Fees and Charges**

Approximately 20% of Council's income is derived from fees and charges including street parking, parking expiations and the UParks. Council has experienced a loss in this revenue stream due to the impacts of COVID and as a result the assumption to return to pre-COVID levels is phased over the life of the LTFP with 2021-22 budgeted at 85-90% of pre-COVID levels.

Council Action:

The ongoing recovery of fees and charges will be monitored on a quarterly basis, with the LTFP updated as required.

Increased reporting on Council business performance to ensure commercial businesses are performing optimally.

### **Issue 4: Interest rates**

Interest rates are presently at a historically low rates, and appear to remain at a very low level for the foreseeable future. Interest expense is presently less than 1% of Council's operating income.

Council Action:



While an allowance for future interest increases has been included in the LTFP, and the risk of potential increases in interest rates will be monitored and minimised where possible in accordance with Council's Treasury Policy

### Issue 5: External Funding

The LTFP is prepared on the basis that all Council operations are expected to fully fund all service delivery and asset renewals. However, it is common for other levels of Government to offer various grant programs which provide assistance to Council to fund larger projects. Where there is certainty in those funding sources, they have been included in the LTFP, if uncertain then it is assumed Council will provide 100% funding. This is a conservative position for Council and leaves all opportunity to ensure the burden of funding these projects is transparent to the community and opens discussion with other levels of Government to fairly consider.

#### Council Action:

Strategic items that will require significant funding over the next 10 years are mainly regarding significant renewal projects. Council will look to open discussions with all levels of government to ensure these significant city assets are funded appropriately by all without placing the burden on ratepayers only but all those who experience the City and its surrounds.

## KEY FINANCIAL INDICATORS

A suite of financial indicators is used to measure Council's financial performance, to guide decision making on major projects, and to secure its continued financial sustainability.

Three nationally consistent financial sustainability indicators have been adopted in principle by Local Government in Australia and are utilised by City of Adelaide, these are:

- The Operating Surplus Ratio
- The Net Financial Liabilities Ratio
- The Asset Sustainability Ratio.

Council also considers an additional three indicators to review the ability to borrow in way of a Prudential Borrowing Limit:.

- Asset Test Ratio
- Interest Expense Ratio
- Leverage Test Ratio.

Council has introduced an additional ratio to clearly depict its ability to fund asset renewals over the life of the LTFP:

- Cashflow from Operations Ratio

For each indicator a description of exactly what is being measured, an explanation of the target, the projected results (shaded in green when the result is within target and red when the result is outside the target range) and a summary of the key message from the analysis is provided.

## Operating Surplus Ratio

### What is being measured

This indicator represents the percentage by which the major controllable revenue source varies from day to day operating expenses. Financial sustainability is indicated where a council consistently achieves operating surpluses and has soundly based projections showing it can continue to do so in the future, having regard to asset management and the service level needs of its community.

### Target

The *Local Government Act 1999* target is to achieve an average operating surplus ratio between 0% and 15% over any five-year period. However, as a Capital City Council, the City of Adelaide has significant responsibilities in improving its public realm, and considers that an average operating surplus ratio between 0% and 20%, over any five-year period, is a more appropriate target.

Operating deficits are not sustainable or equitable in the long term, as they result in services consumed by current ratepayers being paid for by future ratepayers. A fair and equitable tax system is one in which taxes paid by each generation is in proportion to the benefits each generation receives.

Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Operating Surplus Ratio	Operating surplus as a percentage of operating revenue	0%-20%	-2%	-2%	-3%	0%	0%	3%	2%	4%	1%	1%

**Key Message**

The 2021-22 through to 2023-24 financial years are forecasted to fall outside the target range, due to years of deficit coupled with the financial impact of COVID-19. Council's financial sustainability initiatives provide a positive impact of the short term and, operating surpluses are generated which can be used to reduce borrowings and to reinvest from 2024-25.

## Net Financial Liabilities Ratio

### What is being measured

This indicator represents the significance of the net amount owed compared with operating revenue. It measures the extent to which Council is managing its debt and highlights that borrowings are often an effective means of financial sustainability, rather than trying to fund all assets and services from operating income. A steady ratio means council is balancing the need to borrow against their affordability of debt. An excessive ratio means Council is borrowing beyond their means and cannot generate the income required to service assets and operations.

### Target

The target for Net Financial Liabilities should be greater than zero. However, the target set by City of Adelaide is that liabilities as a percentage of total operating revenue will not exceed 80%.

A target below zero indicates that Council places a higher priority on accumulated financial assets than applying funds generated from ratepayers to the provision of services and/or infrastructure renewal.

Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Net Financial Liabilities</b>	Financial liabilities and a percentage of operating income	Less than 80%	61%	69%	63%	48%	49%	46%	43%	53%	70%	84%

### Key Message

City of Adelaide's net financial liabilities are within the prescribed target. Given the direct relation this ratio has to borrowings it is imperative to ensure borrowings are managed effectively to maintain this ratio within target range.

## Asset Sustainability Ratio

### What is being measured

This indicator expresses expenditure on asset renewals as a percentage of the projected funding required for asset renewal. It illustrates whether existing assets are being replaced or renewed at the rate they are being consumed and ensures consistent service delivery as determined by the Infrastructure and Asset Management Plans (AMPs).

### Target

A ratio lower than 100% suggests that Council is not maintaining assets and infrastructure in order to optimise asset lives. A ratio higher than 100% suggests that Council is replacing assets earlier than needed. Adoption of a target ratio between 90% and 110%, is in line with the *Local Government Act 1999*.

Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Asset Sustainability Ratio</b>	Expenditure on asset renewals as a percentage of forecast required expenditure in the asset management plans	90%-110%	67%	100%	100%	100%	100%	100%	100%	100%	100%	100%

### Key Message

As the sustainability ratio falls below the target range for the 2021-22 financial year as per Council resolution to assist with cashflow requirements for recovery from COVID impacts. It is assumed that over the long term asset renewals will be funded in line with the Strategic Asset Management Plans and the sustainability ratio returns to 100%.

## Prudential Limits (Borrowings)

### What is being measured

The maximum level of debt is prescribed by Council by way of prudential limits. While Council does not place a physical monetary limit on the level of borrowings, an upper limit is determined through its financial indicators. When borrowing, Council will consider these indicators.

### Target

The Prudential limits set within the Treasury and Cash Investment Policy are:

- Asset Test Ratio Maximum of 50%
- Interest Expense Ratio Maximum of 10%
- Leverage Test Ratio Maximum 1.5 Years

Prudential limits are breached when one of the ratios fall outside of the targets stipulated in the policy. The breach must be reported with remediation actions to the CEO immediately and reported quarterly within the borrowing and cash investment performance report.

Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
<b>Asset Test Ratio</b>	Borrowings as a percentage of total saleable property assets	Maximum 50%	29%	32%	25%	21%	22%	21%	19%	26%	36%	45%
<b>Interest Expense Ratio</b>	Number of times General Rates Revenue (less Landscape Levy) can service the annual interest expense	Maximum 10%	1.0%	1.2%	1.3%	1.2%	1.1%	1.1%	1.0%	1.2%	1.6%	2.1%
<b>Leverage Test Ratio</b>	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1.5 years	0.8	0.9	0.8	0.6	0.6	0.6	0.5	0.7	1.0	1.2

### Key Message

The Treasury and Cash Investment Policy was reviewed in 2020 and has resulted in changes to the Prudential Limits to better reflect Council's ability to fund and service existing and future debt, and the creation of a reserve fund to be known as the "Future Fund", to enable Council to fund the purchase of future income generating assets or to invest in strategic capital projects from the sale proceeds of Council assets.

Improvements to the LTFP enables Council to model and test the impact of various scenarios, including increased borrowings to purchase income generating assets and invest in strategic capital projects, with the aim of facilitating more informed decision making and deliver increased benefits to City residents, ratepayers and businesses.

City of Adelaide's borrowings are within the prescribed targets across the Long Term Financial Plan.

## Cashflow from Operations Ratio

### What is being measured

Cash Flow from Operations as a percentage of forecast required expenditure in the asset management plans.

This indicator represents whether Council is generating enough cash from its operations to cover the replacement of assets over time.

A lower ratio indicates that Council is not generating enough cash from operations to cover asset replacement (less than 100%) and as a result Council is funding the replacement of assets from unsustainable sources of income that is forecasting an increasing level of borrowings over time.

Council's Cash Flow from Operations Ratio falls outside of the target across the plan. Between 2020-21 and 2023-24 Council is forecast to recover from COVID-19, and invest in the Central Market Arcade resulting in reduced income during construction. From 2028-29 Council falls outside of the target as reserves have not been put aside in order to fund significant renewals required.

This ratio highlights the risk regarding Council's ability to fully fund the larger renewals that are presented in the LTFP in the later years. This is not to suggest deficiency in renewal, but rather highlight the opportunity in advance to seek alternative funding sources such as State or Federal Grants to assist with the funding of significant asset renewal projects for the benefit of the wider SA metropolitan area.

### Target

A result of greater than 100% suggests Council's operations will generate enough cashflow to support the funding of replacement of assets over time.



Financial Indicator	Explanation	Target	2021-22 Draft	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Cash Flow from Operations Ratio	Operating income as a percentage of Operating Expenditure plus expenditure on renewal/replacement of assets	Greater than 100%	107%	98%	96%	102%	100%	104%	104%	91%	86%	87%

### Key Message

The positive result in 2021-22 is reflective of the decision to set Asset Sustainability at 67% and as a result the cashflow from operations adequately covers the lower renewals budget. This is consciously done to use the cashflow to support operations as they recover from COVID impacts. In 2022-23 and 2023-24, the cashflow is still in a steady recovery from deficits and as such the assumption to resume 100% asset renewal shows a slight deficit in funding. This recovers in the mid-term of the plan and returns to below target range in the later years of the LTFP due to significant renewals required in accordance with the Asset Management Plans. This ratio highlights Councils requirement to seek additional funding support for these significant renewals as cashflow from operations will not be sufficient enough.

## FINANCIAL STATEMENTS

### Explanation of the Financial Statements

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

To meet this objective, financial statements provide information about an entity's:

- Assets
- Liabilities
- Equity
- (d) Income and expenses, including gains and losses
- (f) Cash flows.

### Uniform Presentation of Finances

The primary objective of the Uniform Presentation of Finances is to ensure that Councils provide a common 'core' of financial information in their financial statements, enabling more meaningful comparisons of each Council's finances.

The statement highlights:

- The Operating Surplus / (Deficit) measure which is considered the most critical indicator of a Council's financial performance.
- The Net Outlays on Existing Assets which represents:
  - The capital investment on the renewal and replacement of existing assets
  - Adjusted for all depreciation, amortisation and impairment from the operating surplus / (deficit), given its non-cash nature. Depreciation is the cost of an asset spread over the useful life of the asset and is an indication of what Council should be spending on renewing or replacing assets annually. If depreciation is higher than the capital investment, it suggests that our assets are not being replaced at the same level that they are being utilised, and could indicate that a higher investment may be required in future years
  - Proceeds from the sale of replaced assets (e.g. plant and fleet).
- The Net Outlays on New and Upgraded Assets which represents:
  - The capital investment on new and upgraded assets (including investment property)
  - Amounts received specifically for new and upgraded assets (e.g. Grant funding)
  - Proceeds from the sale of surplus assets. This includes investment property and non-current assets held for sale.
- The Net Lending / (Borrowing) for Financial Year result is a measure that takes account of both operating and capital activities for the financial year.
  - A Net Lending position indicates that Council has repaid debt or increased reserves from its activities.
  - A Net (Borrowing) position indicates that Council has required additional debt to fund its activities. A zero result in any one year means that Council has met all of its expenditure (both operating and capital) from the current year's income.

### Statement of Comprehensive Income

The Statement of Comprehensive Income provides information about the financial performance of Council. It provides a summary of all the sources of operating revenue and expenditure, the difference is known as the operating surplus / (deficit).

- The Net Surplus / (Deficit) represents the operating position with the inclusion of asset disposal and fair value adjustments, being the gain or loss on the sale of replaced assets, assets surplus to requirement, and fair value adjustments for investment property. Any amounts received for new and upgraded assets are also included in the Net Surplus.
- Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss, these include items such as changes in the valuation of infrastructure, property, plant & equipment, and any actuarial gains on the defined benefit plan.

### **Statement of Financial Position**

The Statement of Financial Position presents the financial position of Council at a given date. It comprises three main components: assets, liabilities and equity.

- The difference between the assets and liabilities is known as the net assets or equity of Council.
- Current Assets and Liabilities are short-term and due within one year. Non-Current Assets and Liabilities represent longer term amounts that are due beyond 12 months.

### **Statement of Changes in Equity**

The Statement of Changes in Equity reflects the movement in equity reserves during the period, being the financial performance of the year plus any other comprehensive income gains.

### Statement of Cash Flows

The Statement of Cash Flows represent the amount of cash and cash equivalents entering and leaving the Council. It measures how well Council manages its cash position, meaning how well it generates cash to pay its debt obligations and fund its operating expenses and capital investments.

The main components of the cash flow statement are:

- Cash from operating activities, being the sources and uses of cash to fund Council operations and deliver services
- Cash from investing activities, being the capital investment on the renewal / replacement of existing assets and new / upgraded assets, as well as any sale proceeds and amounts received for the new / upgraded assets
- Cash from financing activities includes the proceeds and repayment of borrowings.

## Financial statements

## Uniform Presentation of Finances

Uniform Presentation of Finances											
\$'000s	2019 - 2020 Forecast	2020 - 2021 Budget	2021 - 2022 Plan	2022 - 2023 Plan	2023 - 2024 Plan	2024 - 2025 Plan	2025 - 2026 Plan	2026 - 2027 Plan	2027 - 2028 Plan	2028 - 2029 Plan	2029 - 2030 Plan
Income	196,432	186,122	201,370	206,560	211,905	225,052	231,149	236,986	242,938	249,009	255,200
less Expenses	(214,961)	(217,707)	(203,129)	(205,635)	(210,535)	(216,954)	(223,405)	(222,886)	(230,359)	(228,742)	(239,445)
Operating Surplus / (Deficit) before Capital Amounts	(18,529)	(31,584)	(1,758)	925	1,370	8,099	7,744	14,100	12,579	20,267	15,756
<i>less Net Outlays on Existing Assets</i>											
Net Capital Expenditure on Renewal and Replacement of Existing Assets	33,557	41,811	30,679	59,001	61,846	56,418	57,096	56,731	57,764	95,438	110,453
less Depreciation, Amortisation and Impairment	(50,158)	(50,845)	(49,926)	(48,956)	(50,201)	(50,912)	(54,656)	(50,669)	(54,642)	(49,112)	(55,428)
less Amounts received specifically for Existing Assets	(2,828)	(864)									
Net Outlays on Existing Assets	(19,429)	(9,898)	(19,246)	10,045	11,645	5,506	2,440	6,062	3,123	46,326	55,025
<i>less Net Outlays on New and Upgraded Assets</i>											
Net Capital Expenditure on New and Upgraded Assets	13,164	25,404	19,291	14,188							
less Amounts received specifically for New and Upgraded Assets	(2,463)	(14,944)	(1,276)								
less Proceeds from Sale of Assets					(25,000)	(25,500)					
Net Outlays on New and Upgraded Assets	10,700	10,460	18,015	14,188	(25,000)	(25,500)					
Net Lending / (Borrowing) for Financial Year	(9,800)	(32,146)	(526)	(23,308)	14,725	28,093	5,304	8,038	9,456	(26,060)	(39,270)

## Statement of Comprehensive Income

Item	2019 - 2020		2020 - 2021		2021 - 2022		2022 - 2023		2023 - 2024		2024 - 2025		2025 - 2026		2026 - 2027		2027 - 2028		2028 - 2029		2029 - 2030			
	Forecast	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan		
<b>Income</b>																								
Rates Revenues	116,458	119,393	123,325	127,025	130,799	135,773	140,104	144,140	148,256	152,454	156,736													
Statutory Charges	11,217	8,450	11,973	12,153	12,389	12,630	12,875	13,125	13,380	13,640	13,904													
User Charges	59,300	54,262	61,985	63,213	64,466	72,313	73,747	75,209	76,700	78,221	79,772													
Grants, Subsidies and Contributions	13,251	3,856	3,051	3,112	3,174	3,238	3,302	3,369	3,436	3,505	3,575													
Investment Income	50	35	26	26	27	27	28	28	29	29	30													
Reimbursements	525	691	705	719	733	748	763	778	794	809	826													
Other Income	546	299	305	311	318	324	330	337	344	351	358													
<b>Total Income</b>	<b>199,261</b>	<b>186,987</b>	<b>201,370</b>	<b>206,560</b>	<b>211,905</b>	<b>225,052</b>	<b>231,149</b>	<b>236,986</b>	<b>242,938</b>	<b>249,009</b>	<b>255,200</b>													
<b>Expenses</b>																								
Employee Costs	77,298	79,274	71,712	73,212	74,743	76,306	77,903	79,492	81,114	82,769	84,458													
Materials, Contracts and Other Expenses	85,952	84,712	78,925	82,653	83,414	87,211	88,489	90,426	92,665	98,366	102,377													
Depreciation, Amortisation and Impairment	50,158	50,845	49,926	48,956	50,201	50,912	54,656	50,669	54,642	49,112	55,428													
Finance Costs	5,818	5,797	5,493	7,426	7,416	6,888	6,355	5,820	6,030	5,928	6,102													
<b>Total Expenses</b>	<b>219,225</b>	<b>220,628</b>	<b>206,056</b>	<b>212,246</b>	<b>215,773</b>	<b>221,318</b>	<b>227,403</b>	<b>226,407</b>	<b>234,451</b>	<b>236,174</b>	<b>248,365</b>													
Operating Surplus / (Deficit)	(19,964)	(33,641)	(4,686)	(5,686)	(3,868)	3,735	3,746	10,578	8,486	12,834	6,835													
Asset Disposal and Fair Value Adjustments	-	(300)	-	-	3,590	(300)	-	-	-	-	-													
Amounts Received Specifically for New or Upgraded Assets	377	3,293	1,276	-	-	-	-	-	-	-	-													
<b>Net Surplus / (Deficit)</b>	<b>(19,587)</b>	<b>(30,648)</b>	<b>(3,410)</b>	<b>(5,686)</b>	<b>(278)</b>	<b>3,435</b>	<b>3,746</b>	<b>10,578</b>	<b>8,486</b>	<b>12,834</b>	<b>6,835</b>													
<b>Total Comprehensive Income</b>	<b>(19,587)</b>	<b>(30,648)</b>	<b>(3,410)</b>	<b>(5,686)</b>	<b>(278)</b>	<b>3,435</b>	<b>3,746</b>	<b>10,578</b>	<b>8,486</b>	<b>12,834</b>	<b>6,835</b>													



# Statement of Financial Position

## Statement of Financial Position

\$'000s	2019 - 2020 Forecast	2020 - 2021 Budget	2021 - 2022 Plan	2022 - 2023 Plan	2023 - 2024 Plan	2024 - 2025 Plan	2025 - 2026 Plan	2026 - 2027 Plan	2027 - 2028 Plan	2028 - 2029 Plan	2029 - 2030 Plan
<b>Current Assets</b>											
Cash and Cash Equivalents	800	800	800	800	800	800	800	800	800	800	800
Trade and Other Receivables	25,259	9,433	10,206	10,469	10,740	11,406	11,715	12,011	12,313	12,620	12,934
Other Financial Assets	143	129	116	104	94	84	76	68	62	55	50
Inventories	641	641	641	641	641	641	641	641	641	641	641
<b>Total Current Assets</b>	<b>26,843</b>	<b>11,003</b>	<b>11,763</b>	<b>12,014</b>	<b>12,275</b>	<b>12,932</b>	<b>13,232</b>	<b>13,521</b>	<b>13,815</b>	<b>14,117</b>	<b>14,425</b>
<b>Non-Current Assets</b>											
Financial Assets	250	225	203	182	164	148	133	120	108	97	87
Equity Accounted Investments in Council Businesses	629	629	629	629	629	629	629	629	629	629	629
Investment Property	2,894	2,923	2,952	2,981	3,011	3,041	3,072	3,102	3,133	3,165	3,196
Infrastructure, Property, Plant and Equipment	1,822,807	1,834,405	1,836,438	1,853,353	1,880,276	1,854,340	1,851,071	1,854,327	1,851,673	1,888,456	1,932,436
Other Non-Current Assets	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659
<b>Total Non-Current Assets</b>	<b>1,828,238</b>	<b>1,839,841</b>	<b>1,841,880</b>	<b>1,858,804</b>	<b>1,885,739</b>	<b>1,859,817</b>	<b>1,856,564</b>	<b>1,859,837</b>	<b>1,857,202</b>	<b>1,894,005</b>	<b>1,938,007</b>
<b>TOTAL ASSETS</b>	<b>1,855,081</b>	<b>1,850,844</b>	<b>1,853,643</b>	<b>1,870,819</b>	<b>1,898,014</b>	<b>1,872,749</b>	<b>1,869,796</b>	<b>1,873,357</b>	<b>1,871,017</b>	<b>1,908,122</b>	<b>1,952,432</b>
<b>Current Liabilities</b>											
Trade and Other Payables	16,696	26,935	26,416	26,406	33,401	26,790	26,819	26,831	26,846	26,349	26,368
Provisions	14,157	11,606	11,838	12,074	12,316	12,562	12,813	13,070	13,331	13,598	13,870
Other Current Liabilities	1,506	1,050	707	946	1,278	1,712	2,151	1,684	1,598	2,125	1,871
<b>Total Current Liabilities</b>	<b>32,359</b>	<b>39,590</b>	<b>38,961</b>	<b>39,427</b>	<b>46,995</b>	<b>41,064</b>	<b>41,784</b>	<b>41,585</b>	<b>41,775</b>	<b>42,071</b>	<b>42,108</b>
<b>Non-Current Liabilities</b>											
Trade and Other Payables	293	1,000	7,000	7,000							
Borrowings	71,700	91,590	86,117	109,425	94,700	73,607	68,303	60,265	50,809	76,869	116,138
Provisions	2,047	1,678	1,712	1,746	1,781	1,817	1,853	1,890	1,928	1,966	2,006
Other Non-Current Liabilities	14,215	13,165	19,444	18,497	17,220	15,508	13,356	14,540	12,942	10,817	8,946
<b>Total Non-Current Liabilities</b>	<b>88,255</b>	<b>107,434</b>	<b>114,272</b>	<b>136,668</b>	<b>113,700</b>	<b>90,931</b>	<b>83,512</b>	<b>76,694</b>	<b>65,678</b>	<b>89,652</b>	<b>127,090</b>
<b>TOTAL LIABILITIES</b>	<b>120,614</b>	<b>147,024</b>	<b>153,233</b>	<b>176,095</b>	<b>160,695</b>	<b>131,995</b>	<b>125,296</b>	<b>118,279</b>	<b>107,453</b>	<b>131,723</b>	<b>169,198</b>
<b>Net Assets</b>	<b>1,734,467</b>	<b>1,703,820</b>	<b>1,700,410</b>	<b>1,694,724</b>	<b>1,737,319</b>	<b>1,740,754</b>	<b>1,744,500</b>	<b>1,755,078</b>	<b>1,763,565</b>	<b>1,776,399</b>	<b>1,783,234</b>
<b>EQUITY</b>											
Accumulated Surplus	815,020	784,373	780,963	775,277	774,999	778,434	782,180	792,758	801,245	814,079	820,914
Asset Revaluation Reserves	917,788	917,788	917,788	917,788	960,661	960,661	960,661	960,661	960,661	960,661	960,661
Other Reserves	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659	1,659
<b>Total Council Equity</b>	<b>1,734,467</b>	<b>1,703,820</b>	<b>1,700,410</b>	<b>1,694,724</b>	<b>1,737,319</b>	<b>1,740,754</b>	<b>1,744,500</b>	<b>1,755,078</b>	<b>1,763,565</b>	<b>1,776,399</b>	<b>1,783,234</b>

## Statement of Changes in Equity

Statement of Changes in Equity	2019 - 2020		2020 - 2021		2021 - 2022		2022 - 2023		2023 - 2024		2024 - 2025		2025 - 2026		2026 - 2027		2027 - 2028		2028 - 2029		2029 - 2030		
	Forecast	Budget	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	Plan	
Balance at the end of previous reporting period	1,754,054	1,734,467	1,703,820	1,700,410	1,694,724	1,737,319	1,740,754	1,744,500	1,755,078	1,763,565	1,776,399												
a. Net Surplus / (Deficit) for Year	(19,587)	(30,648)	(3,410)	(5,686)	(278)	3,435	3,746	10,578	8,486	12,834	6,835												
b. Other Comprehensive Income																							
Total Comprehensive Income	(19,587)	(30,648)	(3,410)	(5,686)	(278)	3,435	3,746	10,578	8,486	12,834	6,835												
Gain (Loss) on Revaluation of I, PP&E									42,873														
Balance at the end of period	1,734,467	1,703,820	1,700,410	1,694,724	1,737,319	1,740,754	1,744,500	1,755,078	1,763,565	1,776,399	1,783,234												



# Statement of Cash Flows

Statement of Cash flows	2019 - 2020 Forecast		2020 - 2021 Budget		2021 - 2022 Plan		2022 - 2023 Plan		2023 - 2024 Plan		2024 - 2025 Plan		2025 - 2026 Plan		2026 - 2027 Plan		2027 - 2028 Plan		2028 - 2029 Plan		2029 - 2030 Plan	
	\$'000s																					
<b>Cash Flows from Operating Activities</b>																						
<b>Receipts</b>																						
Operating Receipts	187,378	203,677	200,597	206,297	211,634	224,386	230,840	236,690	242,636	248,701	254,887											
<b>Payments</b>																						
Operating Payments to Suppliers and Employees	(169,400)	(156,850)	(150,360)	(155,709)	(159,117)	(164,097)	(166,729)	(169,769)	(173,732)	(177,211)	(181,578)											
Net Cash provided by (or used in) Operating Activities	17,978	46,827	50,237	50,588	52,518	60,289	64,112	66,920	68,905	71,490	73,308											
<b>Cash Flows from Investing Activities</b>																						
<b>Receipts</b>																						
Amounts Received Specifically for New/Upgraded Assets	377	3,293	1,276	-	-	-	-	-	-	-	-											
Proceeds from Surplus Assets	-	1,000	6,000	-	25,000	18,500	-	-	-	-	-											
<b>Payments</b>																						
Expenditure on Renewal/Replacement of Assets	(33,557)	(41,811)	(30,679)	(59,001)	(61,846)	(56,418)	(57,096)	(56,731)	(57,764)	(57,764)	(57,764)											
Expenditure on New/Upgraded Assets	(13,164)	(25,404)	(19,291)	(14,188)	-	-	-	-	-	-	-											
Capital Contributed to Equity Accounted Council Businesses	-	-	-	-	-	-	-	-	-	-	-											
Net Cash provided by (or used in) Investing Activities	(46,343)	(62,922)	(42,694)	(73,189)	(36,846)	(37,918)	(57,096)	(56,731)	(57,764)	(57,764)	(57,764)											
<b>Cash Flows from Financing Activities</b>																						
<b>Receipts</b>																						
Proceeds from Borrowings	24,300	17,646	-	23,308	-	-	-	-	-	-	-											
<b>Payments</b>																						
Repayment from Borrowings	(1,204)	(1,551)	(2,070)	(707)	(946)	(1,278)	(1,712)	(2,151)	(1,684)	(2,112)	(2,125)											
Repayment of Principal portion of lease liability	(1,204)	(1,551)	(2,070)	(707)	(946)	(1,278)	(1,712)	(2,151)	(1,684)	(2,112)	(2,125)											
Net Cash provided by (or used in) Financing Activities	23,096	16,095	(7,543)	22,601	(15,672)	(22,370)	(7,016)	(10,189)	(11,740)	(23,948)	37,145											
Net Increase (Decrease) in Cash Held	(5,269)	(0)	0	(0)	(0)	(0)	0	(0)	0	0	0											
plus: Cash & Cash Equivalents at beginning of period	6,069	800	800	800	800	800	800	800	800	800	800											
Cash & Cash Equivalents at end of period	800	800	800	800	800	800	800	800	800	800	800											

## GLOSSARY

### Asset

Assets are future economic benefits controlled by the Council as a result of past transactions or other past events.

### Asset Renewal Funding Ratio (also known as the Asset Sustainability Ratio)

Expenditure on asset renewals as a percentage of forecast required expenditure in the infrastructure asset management plans.

### Asset Test Ratio

Borrowings as a percentage of total saleable property assets.

### Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a measure of changes, over time, in retail prices of a constant basket of goods and services representative of consumption expenditure by resident households in Australian metropolitan areas. The simplest way of thinking about the CPI is to imagine a basket of goods and services comprising items typically acquired by Australian households. As prices vary, the total price of this basket will also vary. The CPI is simply a measure of the changes in the price of this basket as the prices of items in it change.

### Equity

Equity is the residual interest in the assets of the Council after deduction of its liabilities.

### Leverage Test Ratio

Total borrowings relative to rates revenue (less landscape levy)

### Liability

Liabilities are the future sacrifices of economic benefits that the Council is presently obliged to make to other entities or organisations as a result of past transactions or other past events

### Interest Expense Ratio

Proportion of Council's general rate income that is being used to service debt (interest).

### Liquidity

Measure of the Council's ability to cover its immediate and short-term debts and obligations.

### Net Financial Liabilities

Financial liabilities as a percentage of operating surplus.

### Operating Surplus Ratio

Operating surplus as a percentage of operating revenue.

# Financial Capitalisation Update

**ITEM 4.3** 19/03/2021  
**Audit Committee**

Strategic Alignment - Enabling Priorities

**Program Contact:**  
Matthew Morrissey, Associate  
Director, Infrastructure 8203 7462

2021/00216  
Public

**Approving Officer:**  
Klinton Devenish, Director  
Services, Infrastructure &  
Operations

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## EXECUTIVE SUMMARY

At the Audit Committee Meeting on 5 February 2021 the Acting Chief Executive Officer gave an undertaking to provide ongoing capitalisation updates to the Audit Committee based on key performance indicators (KPIs).

This report provides an update on the Capitalisation KPI's.

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## RECOMMENDATION

### THAT THE AUDIT COMMITTEE

1. Notes the report.

## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities
Policy	This report is in line with the Fixed Asset Guideline and Asset Accounting Policy.
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Not as a result of this report
Opportunities	Not as a result of this report
20/21 Budget Allocation	Not as a result of this report
Proposed 21/22 Budget Allocation	Not as a result of this report
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
20/21 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

## DISCUSSION

### 1. **KPI 1 - 92% of Projects capitalised within 10 Weeks**

- 1.1. Since implementing the KPI, 12 projects were capitalised and 11 of them were capitalised within the 10-week timeframe.
- 1.2. The one project that did not meet the deadline was the Public Art on Gawler Place, "The Pigeon", this was processed in 13 weeks. The acceptance of this asset on to our register was delayed as there was damage to the artwork. We needed to liaise with the artist/fabricator and insurance company to ensure it was not a defect and would be rectified prior to acceptance, this delayed asset capitalisation.

### 2. **KPI 2 - < 10% Variance between Preliminary Year End and Annual Financial Statement**

- 2.1. The capital program was reviewed at the beginning of the year to prepare a baseline forecast of WIP write off.
- 2.2. Monthly meetings are conducted between Infrastructure and Finance to review the status of WIP, monitor progress and develop actions.
- 2.3. A working group was also created to enable notification of key projects requiring capitalisation to Team Leaders. Meetings are held fortnightly, increasing to weekly as we approach year end.
- 2.4. Reporting on current forecast and variance is through the Quarterly Finance report.
- 2.5. The non-capital component of projects is recognised earlier within the capitalisation process.
- 2.6. Accrual adjustments for projects yet to be capitalised at year-end brought forward from August to early July to meet preliminary year-end deadline.

### 3. **Proposed process amendments to reduce WIP write off**

- 3.1. WIP write off in its nature is a correction of planned works that were assumed to be capital in nature but are, in accordance with the fixed asset guidelines, operational expenses.
- 3.2. While review of WIP for this purpose is a sound financial accounting process, it raises the question with regards to the root cause of write off being lack of clarity and detail regarding spend at planning stage.
- 3.3. As a result, a review of capital budgeting is being undertaken with the intention to produce capital budget guidelines. These guidelines will capture treatment of projects and associated budgets at the planning stage so as to minimise the risk of write off once the project has commenced.
- 3.4. Once developed, these guidelines will be brought to the Committee for feedback and recommendation to Council to support more sustainable financial decision making regarding capital budgeting.
- 3.5. The proposed guidelines will include concepts regarding Whole of Life project budgeting, require progress and forecast reporting through to Council and ensure capital budgets are managed in line with delivery and the ongoing operating costs associated with these capital projects are funded sustainably.
- 3.6. Ongoing updates regarding these guidelines and implications to the planning process will be brought back to the Committee in due course.

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## DATA AND SUPPORTING INFORMATION

Nil

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## ATTACHMENTS

Nil

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- END OF REPORT -