

Adoption of the Long Term Financial Plan 2023-2024 to 2032-2033 & CEO Sustainability Statement

Strategic Alignment - Enabling Priorities

Public

Tuesday, 19 September 2023
City Finance and Governance
Committee

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Approving Officer:
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EXECUTIVE SUMMARY

The *Local Government Act 1999 (SA)* states that a council must develop and adopt a Long Term Financial Plan (LTFP), for a period of at least 10 years (s122 (1a) (a)), within 2 years after each general election of the council (s122 (4) (b)).

City of Adelaide reviews the LTFP annually, as soon as practicable after the adoption of its annual Business Plan, and updates it, reporting revised projections based on each quarterly budget review.

Further, s122 (4a) (a) requires an annual report from the Chief Executive Officer on the sustainability of the council's long-term financial performance and position.

Council resolved, in setting the Chief Executive Officer's Key Performance Indicators (KPIs), that an update of the LTFP for 2023/24 be presented to Council by the end of October 2023.

The development of the LTFP builds upon the work undertaken for the annual Business Plan and Budget.

Key outcomes include:

- The surpluses in the short- to mid-term reflect a robust statement of financial sustainability derived from a positive underlying structural budget that delivered an operating result in 2022-23 (\$1.27m), which has been achieved through sound financial management and improved efficiency and performance in the provision of all services and asset management plans.
- The LTFP also assumes transitioning from a 90% Asset Renewal Funding Ratio (ARFR) to 100% over four years.
- An ARFR of 100% is forecast to be achieved from 2027-28 onwards, ensuring that assets are being replaced at the same rate as they are wearing out, supporting Council's long term financial sustainability.

RECOMMENDATION

The following recommendation will be presented to Council on 26 September 2023 for consideration

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL
THAT COUNCIL

1. Notes the Chief Executive Officer Financial Sustainability Report.
 2. Notes the long term financial sustainability of the Long Term Financial Plan 2023/24 to 2032/33.
 3. Adopts the Long Term Financial Plan 2023/24 to 2032/33 as set out in Attachment A to 4.4 on the Agenda for the City Finance and Governance Committee meeting held 19 September 2023.
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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	<i>Local Government Act 1999 (SA)</i>
Opportunities	Not as a result of this report
23/24 Budget Allocation	Not as a result of this report
Proposed 24/25 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
23/24 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

Background

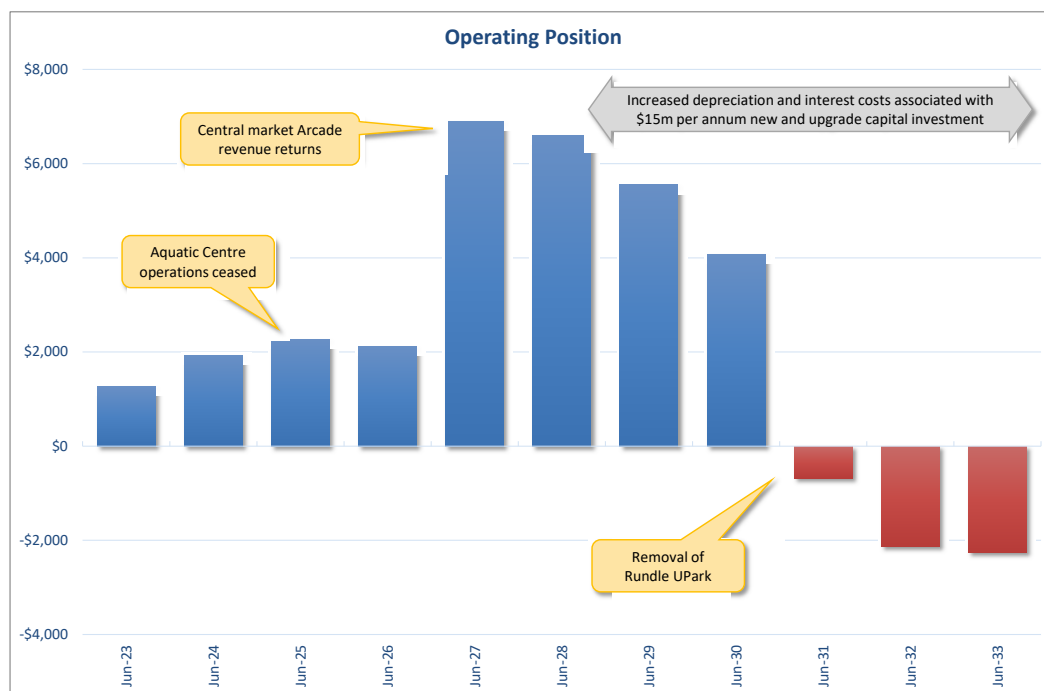
1. The *Local Government Act 1999 (SA)* states that a council must develop and adopt a Long Term Financial Plan (LTFP), for a period of at least 10 years (s122 (1a) (a)), within 2 years after each general election of the council (s122 (4) (b)).
2. The LTFP forms part of Council's suite of Strategic Management Plans (SMPs), along with its Asset Management Plans and Strategic Plan, which must also be adopted within 2 years of being elected.
3. The *Local Government Act 1999* requires a Council's SMPs to address:
 - 3.1. the sustainability of the Council's financial performance and position
 - 3.2. the maintenance, replacement or development needs for infrastructure within its area, and
 - 3.3. identification of any anticipated or predicted changes that will have a significant effect upon the costs of the Council's activities/operations.
4. City of Adelaide reviews the LTFP annually, as soon as practicable after the adoption of its annual Business Plan, and updates it, reporting revised projections based on each quarterly budget review.
5. Further, s122 (4a) (a) requires an annual report from the Chief Executive Officer on the sustainability of the council's long-term financial performance and position.
6. At the Council meeting dated 27 June 2023, Council resolved, as part of the Chief Executive Officer's KPIs, that the LTFP needs to be presented to Council by the end of October 2023.
7. At the Council meeting dated 27 June 2023, Council adopted the 2023/24 annual Business Plan and Budget.
8. This LTFP takes account of the preliminary actual results for 2022/23 and the 2023/24 adopted Annual Budget as the base for its projections.
9. The development of the LTFP builds upon the work undertaken for the annual Business Plan and Budget.
10. The 2023/24 to 2032/33 LTFP is modelled on the following trends and assumptions. Of particular note:
 - 10.1. The LTFP assumes rate revenue increases in line with the Consumer Price Index (CPI), combined with growth of 1% associated with new rateable properties, whereby the rate revenue percentage increase is in excess of the percentage increase in key operational costs.
 - 10.2. CPI, which is forecast by various bodies, is the preferred escalator over Local Government Pricing Index (LGPI), which is a lag indicator.
 - 10.3. Enterprise Agreements are used as the basis for salaries and wages increases, noting the differing timeframes associated with each agreement, with the Wages Price Index (WPI) used beyond agreement expiries.
 - 10.4. Interest rates sourced from Deloitte Access Economics 10 year Government Bond data – updated quarterly.
 - 10.5. Capital renewal expenditure reflects Infrastructure and Asset Management Plans.
 - 10.6. Capital enhancements (new and upgrade) reflect Council's decision to fund \$15 million per annum over the current term (which is assumed to continue beyond the current term for the life of the LTFP).
 - 10.7. Significant asset renewals contemplated within the LTFP include the Adelaide Bridge, and Torrens Weir structure.
 - 10.8. Rundle UPark's current useful life is projected to 2029/30 and as such, any capital investment and operating impacts from the property have been removed from 2030/31 onwards.
 - 10.9. Assumptions for the Adelaide Aquatic Centre are based on the latest available information requiring the asset to be impaired which, together with the \$20 million dollar contribution, will all treated as either capital or allocated to the Asset Revaluation Reserve, thereby not impacting the operating position.
11. Current assumptions for CPI, interest rates and WPI are based on Deloitte Access Economics June 2023 forecasts.

Statement of Comprehensive Income

12. The current and following ten years Statement of Comprehensive Income is included in **Attachment A**.
13. The next four years, including the preliminary result for 2022/23, are summarised below:

Operating Position					
\$'000s	22-23 Prelim	2023-24 Budget	2024-25 Plan	2025-26 Plan	2026-27 Plan
Income					
Rates Revenues	124,917	135,395	139,809	145,177	151,533
Statutory Charges	12,160	14,683	14,990	15,356	15,739
User Charges	66,934	70,002	64,926	66,509	74,101
Grants, Subsidies and Contributions	7,696	4,449	4,547	4,318	4,426
Investment Income	1,136	150	154	157	161
Reimbursements	1,164	338	346	355	364
Other Income	1,436	465	477	488	500
Net gain - Equity Accounted Council Businesses	10				
Total Income	215,454	225,481	225,249	232,361	246,825
Expenses					
Employee Costs	72,478	85,013	83,050	85,581	88,215
Materials, Contracts & Other Expenses	88,135	81,672	80,569	82,199	86,191
Depreciation, Amortisation & Impairment	52,622	56,040	56,835	59,353	62,012
Finance Costs	952	835	2,525	3,117	3,502
Total Expenses	214,187	223,561	222,980	230,250	239,920
Operating Surplus / (Deficit)	1,267	1,920	2,268	2,111	6,905

14. The projected operating result for 2023-24 is a surplus of \$1.92m.



- The underlying increases in rates and fee revenue are in excess of the percentage increase in key operational costs, contributing to growth in surpluses in the short term.
- The surpluses in the short- to mid-term reflect a robust statement of financial sustainability derived from a positive underlying structural budget that delivered an operating result in 2022-23 (\$1.27m), which has been achieved through sound financial management and improved efficiency and performance in the provision of all services and asset management plans.
- The LTFP maintains an operating surplus (see chart below) until year 8 when the combined impact of increased depreciation and interest expense (from higher asset levels and borrowings associated with \$15 million per annum capital investment in new and upgrade projects) and the removal of Rundle UPark, which makes a positive contribution to the operating position, causes an operating deficit.

18. There are 3 key operational impacts that affect the operating position throughout the life of the LTFP, namely:
 - 18.1. The closure of the Aquatic Centre in 2024/25 (removing both operating revenue and expenses), which operated at a significant loss (after including depreciation), improves the bottom line
 - 18.2. Returning revenue from the re-opening of the redeveloped Central Market Arcade in 2026/27, and
 - 18.3. The assumption surrounding Rundle UPark, removing both capital expenditure and operating surpluses associated with it.

Statement of Financial Position

19. The Statement of Financial Position is shown in **Attachment A**.
20. The net assets of the Council are forecast to increase from \$1.857b at June 2023 to \$1.912b in June 2033.

Statement of Cash Flows

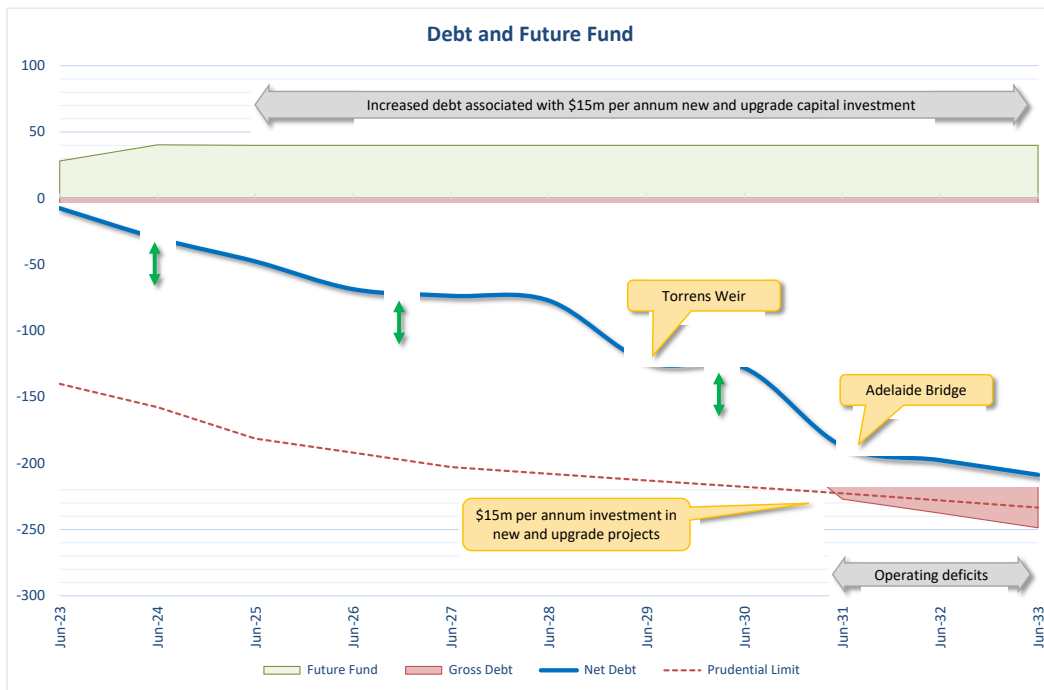
21. The Statement of Cash Flow is shown in **Attachment A**.
22. Of note are the Proceeds from Sale of Surplus Assets, allocated to the Future Fund and offsetting the need to draw the full debt required to fund new and upgraded projects.
 - 22.1. Note however that when funds in the Future Fund are required to invest in future projects, borrowing levels will reflect the level of debt carried by Council had it not been offset by the Future Fund.
23. The cash flows from operations is positive over the life of the project, indicating that Council operations will generate enough cashflow to cover ongoing expenses and support the funding of asset replacement over time, noting however that borrowings may be required to fund significant renewal projects in the Torrens Weir and Adelaide Bridge

24. The next four years, including the preliminary result for 2022/23, are summarised below:

Statement of Cash flows					
\$'000s	22-23 Prelim	2023-24 Budget	2024-25 Plan	2025-26 Plan	2026-27 Plan
Cash Flows from Operating Activities					
<u>Receipts</u>					
Operating Receipts	214,368	226,982	216,818	230,976	246,087
<u>Payments</u>					
Payments to Employees	(69,386)	(84,537)	(82,560)	(85,077)	(87,681)
Payments for Materials, Contracts & Other Expenses	(89,756)	(89,428)	(83,880)	(86,390)	(86,747)
Finance Payments	(952)	(741)	(1,787)	(2,477)	(2,962)
Operating Payments to Suppliers and Employees	(160,094)	(174,706)	(168,226)	(173,944)	(177,389)
Net Cash provided by (or used in) Operating Activities	54,274	52,276	48,592	57,032	68,698
Cash Flows from Investing Activities					
<u>Receipts</u>					
Amounts Received Specifically for New/Upgraded Assets	6,655	5,295	-	-	-
Proceeds from Surplus Assets	6,685	27,125	18,500	-	-
Sale of Replaced Assets	1,264	630	500	500	500
<u>Payments</u>					
Expenditure on Renewal/Replacement of Assets	(38,167)	(50,416)	(48,682)	(51,932)	(52,739)
Expenditure on New/Upgraded Assets	(27,148)	(49,998)	(31,117)	(21,100)	(15,920)
Net Purchase of Investment Securities	-	-	-	-	-
Capital Contributed to Equity Accounted Council Businesses	(196)	(320)	(320)	(320)	(320)
Net Cash provided by (or used in) Investing Activities	(50,907)	(67,684)	(61,119)	(72,852)	(68,479)
Cash Flows from Financing Activities					
<u>Receipts</u>					
Proceeds from Borrowings	15,800	20,285	17,515	20,921	5,005
<u>Payments</u>					
Repayment from Borrowings	(16,281)	-	-	-	-
Repayment of Lease Liabilities	(4,956)	(4,877)	(4,989)	(5,102)	(5,224)
Net Cash provided by (or used in) Financing Activities	(5,480)	15,408	12,527	15,819	(218)
Net Increase (Decrease) in Cash Held	(2,113)	(0)	(0)	(0)	0
plus: Cash & Cash Equivalents at beginning of period	2,984	800	800	800	800
Cash & Cash Equivalents at end of period	871	800	800	800	800

25. Given the investment mindset of the Council and the commitment to expend \$15m per annum over the next four years on new and upgraded projects (which has been assumed as continuing for the life of the LTFP), it is more appropriate to focus on the balance of borrowings rather than the cash balance.
26. The net funding position at the end of 2023/24 is forecast to require borrowings of \$30.2m.
27. This steadily increases in subsequent years principally due to utilising borrowings to fund the new and upgraded capital program (noting that Council uses operating revenue to fund the renewal capital program).
28. Also note the increase in borrowings in years 6 and 8 whereby it is assumed that Council will fund 100% of the renewal costs associated with the Adelaide Bridge and Torrens Weir. Given the size of these significant renewals, it is anticipated to fund them using borrowings to avoid large rate or other revenue increases to fund the works.
29. The LTFP also assumes transitioning from a 90% Asset Renewal Funding Ratio (ARFR) to 100% over four years. The effect of this is that there is less operating revenue available to offset debt requirements, contributing to an overall increase in the net funding position.

30. A chart of the net funding position showing the gross debt, future fund and net debt (“offset balance”) is shown below.



Capital Investment

31. The Asset Renewal Funding Ratio is shown in **Attachment A**. An ARFR of 100% is forecast to be achieved from 2027-28 onwards, ensuring that assets are being replaced at the same rate as they are wearing out, supporting Council’s long term financial sustainability.
32. Note that once the Strategic Plan has been adopted, the LTFP will be updated to ensure that Council’s strategies and initiatives can be sustainably funded.

Financial Indicators

33. The key financial indicators (KFIs) required to be reported by Councils are the:
- 33.1. Operating Surplus Ratio
 - 33.2. Net Financial Liabilities Ratio
 - 33.3. Asset Renewal Funding Ratio (ARFR)
34. In addition to the required KFIs, Council has adopted additional KFIs to measure its long term sustainability. These are the:
- 34.1. Asset Test Ratio
 - 34.2. Interest Expense Ratio
 - 34.3. Leverage Test Ratio
 - 34.4. Cashflow from Operations Ratio
35. The KFIs are shown in **Attachment A** demonstrate an improving financial position in the short term and maintaining a sustainable financial position in key components throughout the 10 year period of the plan. However, the following should be noted:
- 35.1. The Operating Surplus Ratio decreases from 2026/27 onwards due to increased depreciation and interest expenses from higher levels of assets and borrowings associated with continued investment in new and upgraded projects for the City
 - 35.2. From years 2030/31 onwards, the removal of Rundle UPark and its positive operational performance impacts the operating position and hence, the Operating Surplus Ratio
 - 35.3. Increased borrowings from continued investment in the City begins to impact the Net Financial Liabilities and Asset Test Ratio indicators

- 35.4. Cash Flow from Operations are negatively impacted by the 100% of funding of the Adelaide Bridge and Torrens Wier significant renewal projects
- 35.5. The ARFR is at 100% throughout the life of the plan, from 2027/28 onwards
- 35.6. Whilst debt remains within the projected Prudential Limits, the Net Financial Liabilities Ratio exceeds its target from 2030/31 onwards suggesting that \$15m per annum investment in new and upgraded capital cannot be sustained without changes in other parts of the LTFP (for example, assistance to fund the significant renewal projects)
36. The next four years, including the preliminary result for 2022/23, are summarised below:

Financial Indicator	Explanation	Target	2022-23 Prelim	2023-24	2024-25	2025-26	2026-27
Operating Surplus Ratio	Operating surplus as a percentage of operating revenue	0%-20%	0.6%	0.9%	1.0%	0.9%	2.8%
Net Financial Liabilities	Financial liabilities and a percentage of operating income	Less than 80%	33%	-1%	15%	39%	38%
Asset Renewal Funding Ratio	Expenditure on asset renewals as a percentage of forecast required expenditure in the asset management plans	90%-110%	74%	90%	93%	95%	98%
Asset Test Ratio	Borrowings as a percentage of total saleable property assets	Maximum 50%	3%	10%	13%	18%	18%
Interest Expense Ratio	Annual interest expense relative to General Rates Revenue (less Landscape Levy)	Maximum 10%	0.0%	0.4%	1.3%	1.7%	2.0%
Leverage Test Ratio	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1.5 years	0.1	0.2	0.3	0.5	0.5
Cash Flow from Operations Ratio	Operating income as a percentage of Operating Expenditure plus expenditure on renewal/replacement of assets	Greater than 100%	109%	101%	100%	102%	107%
Borrowings	Borrowings as a percentage of the Prudential Borrowing Limit	Within Prudential Limits (\$147m in 2023-24)	7.5	30.2	47.7	68.6	73.6
			5%	20%	26%	36%	36%

CEO Sustainability Report

37. In addition to the Long Term Financial Plan, the CEO Financial Sustainability Report is also attached (**Attachment B**).
38. The CEO Financial Sustainability Report is a summary of the Council's financial sustainability position. It sets out each of the seven Long-Term Financial Sustainability indicators, along with the Council's performance against each.
39. For each of the indicator there is:
- 39.1. A brief description of the indicator
 - 39.2. The Council target for the indicator
 - 39.3. The Council's result for the indicator
 - 39.4. A graph showing the previous year's actual figure, the current year's budget figure and the projected Long Term Financial Plan's figures for the next nine years.
40. It is important to note that, as part of the 2023/24 annual budget process, Council adopted a suite of financial principles to assist and guide in making informed decisions. Should Council adhere to these principles, it is likely that Council will be financially sustainable now and into the future.
41. With regard to the KFI's, in most cases Council meets the target for each relevant indicator, with outcomes (both positive and negative) either based on core assumptions reflecting Council's direction, key decisions of Council impacting results or demonstrating the need for a Council decision on some key components to ensure longer term sustainability.
42. The report concludes that, given the known and impending impacts, the City of Adelaide is currently financially sustainable and has the ability to remain so, subject to future direction and decisions of Council.

43. The results highlight matters where a Council decision is required with regard to future financial sustainability. Long term financial sustainability is therefore subject to ongoing decisions and effort, and in particular (but not limited to):
 - 43.1. Ensuring decisions are consistent with Council's adopted financial principles
 - 43.2. Continued growth in revenue, through both rates and commercial activities, at or above the rate of growth in expenses
 - 43.3. Investment of \$15m per annum for the life of the LTFP on new and upgrade projects
 - 43.4. The future of Rundle UPark
 - 43.5. Successful resolution of external funding for the renewal of the Torrens Weir and Adelaide Bridge
 - 43.6. Ongoing advocacy for reductions in exemptions and mandatory rebates
 - 43.7. The final position reached for the Adelaide Aquatic Centre, and
 - 43.8. Use of the Future Fund for particular projects and initiatives.

Policy Review

44. There has been no significant change to any policy that particularly impacts Council's financial sustainability.
45. However, as part of the 2023/24 annual business plan and budget process, Council chose to increase rates through re-valuing the city for the first time in 4 years and increasing most fees and reinstating others that had been waived in recent years to support ratepayers and businesses through the COVID-19 pandemic.
46. Additionally, there was acknowledgment to transition the Asset Renewal Funding Ratio to be 100% over the next 4 years (from the current 90% in place as a result of a Council resolution),

Next Steps

47. Next steps include:
 - 47.1. Present the LTFP and CEO Statement of Sustainability to the City Finance & Governance Committee meeting 19 September 2023
 - 47.2. Present the LTFP and CEO Statement of Sustainability to Council for adoption at the 26 September 2023 meeting
 - 47.3. Publish the LTFP to Council's website.

ATTACHMENTS

Attachment A – 2023/24 to 2032/33 Long Term Financial Plan

Attachment B – CEO Sustainability Report

- END OF REPORT -