

City of Adelaide

# 2024/25 Business Plan and Budget

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## Proposed Process Overview

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### **Council Member role for this presentation:**

- Note context of Business Plan and Budget development
- To receive the proposed timeframes
- To understand the foundation to building a Business Plan and Budget
- To understand how we develop a base budget

5 December 2023

Manager Strategy, Insights and Performance  
Manager Finance and Procurement

# Context

## Why we develop a Business Plan and Budget

The *Local Government Act 1999* provides direction on strategic, financial, asset and annual planning. The Act also articulates clear principles to be observed for strategic and business planning, including being responsive to community needs, collaboration across government, responsible services, and financial management.

- Demonstrates responsible management of public funds to support community outcomes
- Represents Council commitment to the community and incorporates the legislatively required annual priorities
- Outlines Council's proposed deliverables for the year and how these align to our Services, Strategic Plan, Long Term Financial Plan, Asset Management Plans and other endorsed Strategies and Action Plans
- Articulates the challenges and opportunities of the current environment

## A Business Plan and Budget is a critical planning and delivery element of Council's Strategic Management Framework.



*Other Plan and Budget considerations include: Community needs and aspirations, government vision and direction, subsidiary operations, Council policy positions and response to emerging risks, opportunities and priorities*

# Council Member Overview

## Building a Plan and Budget Council Member Experience

Over the coming months, Council will consider:

- Commitments for 2024/25 and beyond
- **Alignment to the Strategic Management Framework** – including a new Strategic Plan, LTFP, Asset Management Plans, City Plan, supporting plans, strategies and policies.
- **Context and Related activities** – Council's work in progress, priorities, opportunities and emerging issues
- The **timeframes and process** to develop the BP&B
- **Financial sustainability** – the parameters, principles and assumptions that guide the BPB
- **Financial levers** – borrowings, rates and income generation, reprioritisation of costs
- **Delivery planning** – how Council implements the Strategic Plan and prioritises of projects and infrastructure works
- **Program and Service requirements** – the service delivery needs for our community and meeting their expectations
- **Community consultation** – community views and sentiment on
- **Adoption** - finalising 2024/25 BP&B in June 2024 and implementing

The foundation of the BP&B is based on understanding:

- Strategy and policy implementation
- Council resolutions
- Long Term Financial Plan
- Asset Management Plans
- Community expectations for Service delivery
- Partnerships
- Potential grant funding available
- Priorities for the year ahead
  - ✓ Main Streets
  - ✓ Economic Development
  - ✓ Housing
  - ✓ Environment
  - ✓ Transport
  - ✓ Funding/Revenue

# Proposed 2024/25 BPB Timeline

Date	Forum	Role	Theme	Topic
5 December	CFG Workshop	Noting	Introduction	Introduction and foundation to building a BP&B (Roadmap)
12 December	Special CEO Briefing	Noting	Rates	Rate Review Discussion
6 February	Special CEO Briefing	Noting	Budget	Financial Sustainability and what underpins the 2024/25 BP&B (Parameters, Assumptions and Principles)
13 February	Special CEO Briefing	Noting	Plan Context	Planning and priorities – Strategy, LTFP, AMP, Opportunities/Emerging Issues
16 February	Audit and Risk Committee	Endorse	Budget	Financial Sustainability and what underpins the 2024/25 BP&B (Parameters, Assumptions and Principles)
20 February	CFG (Workshop)	Discuss	Plan and Budget	Overview of Program delivery (including services and subsidiaries), base budget
March	Special Committee (Workshop) - TBC	Discuss	Plan and Budget	Operating Budget: (Strategic) Projects, Priorities and budget levers available
19 March	CFG (Workshop)	Discuss	Plan and Budget	Capital Budget: Projects, Priorities and budget levers available
9 April	Council	Endorse	Key Projects	Final list of Strategic and Capital projects
16 April	Committee (Report)	Endorse	Draft	Draft 2024/25 BP&B for community consultation purposes
May	-	Participate	Consultation	21-day Community Consultation (including presentation of Draft 2024/25 BP&B to Audit and Risk Committee and Subsidiary boards)
June	Special Council	Discuss	Draft	Special hearing for public consultation and receipt of submissions
25 June	Council	Adopt	Final	Final 2024/25 BP&B

# Integration of how we plan and budget

## How we develop a Business Plan and Budget

### Funding Framework and decision making

The funding framework shows the relationship between our funding sources (levers) and our expenditure.

How we utilise these levers directly impacts our immediate and long term delivery of Services, Asset Management Plans and Long Term Financial Plan.

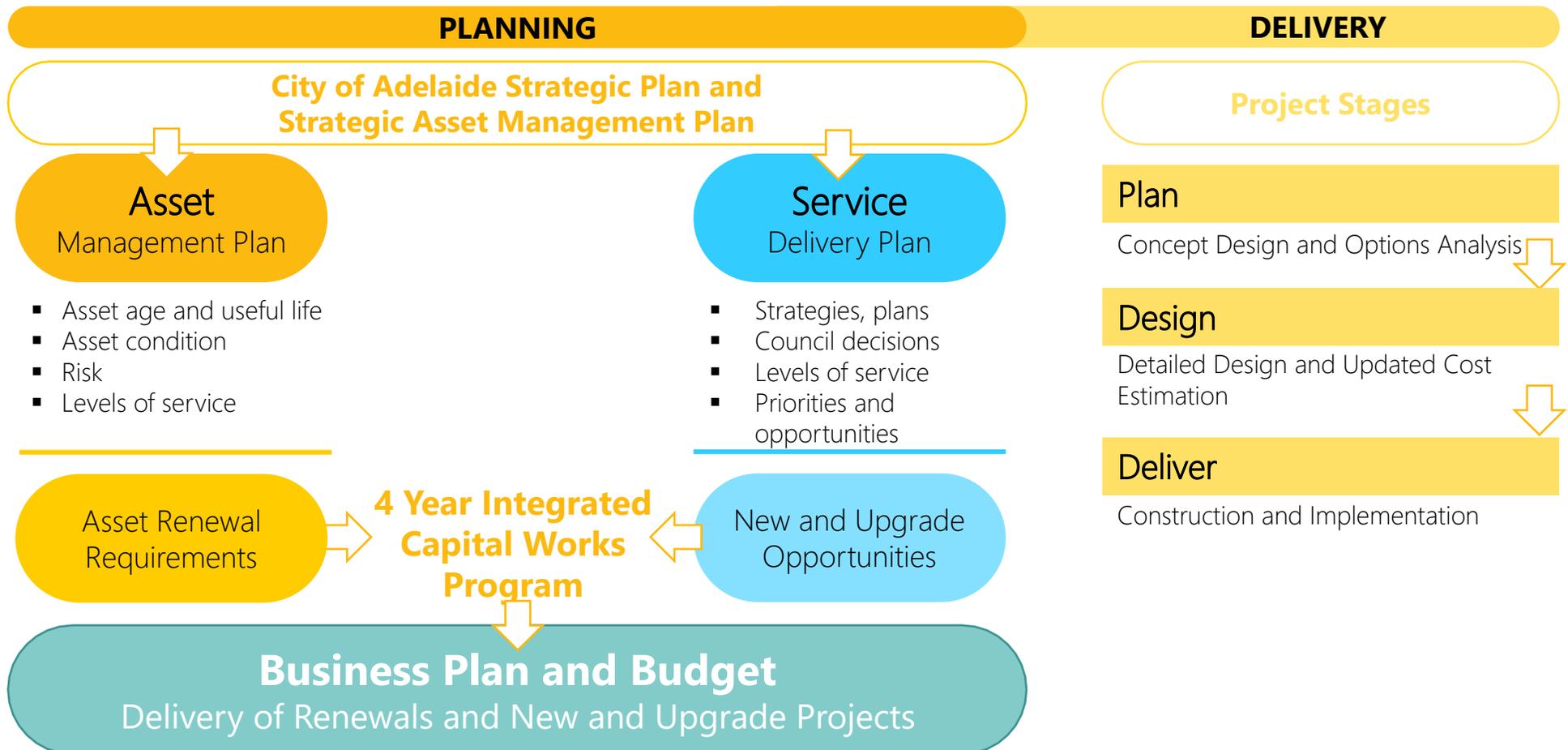
Our services, projects and renewal infrastructure works are predominantly funded through rates, fees and charges, and grants and subsidies.

Borrowings are utilised for New and Upgrade or Major Capital projects or commercially focused projects with a financial return on investment. In unique circumstances, borrowings for significant renewals may be required.

		Expenditure (cash outflows)				
		Services	Strategic Projects	Capital Renewals	Capital Projects	Borrowings
Funding (cash inflows)	Rates	✓	✓	✓		
	Fees and Charges	✓	✓	✓		
	Grants and Subsidies	✓	✓	✓	✓	
	Future Fund				✓ <i>Major Projects only</i>	
	Borrowings / Surplus				✓	✓ <i>Surplus only</i>

# Integration of how we plan and budget

## How we develop a Business Plan and Budget Infrastructure Planning



# Economic Environment

## Understanding how a base budget is built

### What influences our financial planning?

Council's Long Term Financial Plan and how we interpret this annually is influenced by external factors such as:

- Valuation implications for rate revenue decisions
- Upcoming review of rates methodology – could impact future rating approach and LTFP assumptions.
- Review of Fees and Charges.
- Infrastructure resources – cost and availability of materials and/or services impacting delivery of capital projects.
- Impact of inflation on service delivery/standards.
- Interest rates – impact on appetite to increase debt and interest costs.
- Early consideration of funding for significant upgrades for future years (Torrens Weir, Adelaide Bridge, Rundle UPark).
- Asset renewals – AMP review has potential to impact on capital expenditure i.e. higher standard of assets will increase renewal expenditure, which will impact operating revenue/cashflow.
- **Limited capacity to deliver Major and NU capital projects outside of Main Streets** as per direction of Council which has informed LTFP assumptions – heavily impacts ability to achieve Strategic Plan outcomes (e.g. limited funding for planting trees as part of renewal projects, as they come under the definition of NU, which impacts outcomes related to urban greening).

# Operating Budget

## LTFP Assumptions

### Operating Budget

- Inflation Forecasts  
2.4% (LTFP), 2.8% (Deloitte Access Economics Sept 2023) and 4.4% forecast for 2023/24 (Budget adopted at 3.9%)
- Revenue increases linked to CPI (Rates and Fees and Charges)
- Rates growth of 1% (from new properties)
- Interest Rates for new borrowings currently set at 4.5%
- Depreciation impacts from Valuations performed in 2022/23 year and Capital Program
- Incorporate cost pressures in Materials and Consumables (utilities etc) that have increased in 2023/24 at a greater percentage than budget assumptions
- Strategic Project allocation of \$5.671m

\$'000s	2023-24 Budget*	2024-25 Plan	2025-26 Plan	2026-27 Plan	2027-28 Plan
<b>Income</b>					
Rates Revenues	135,281	139,809	145,177	151,533	156,845
Fees and Charges	84,598	79,916	81,865	89,840	92,083
Grants, Subsidies and Contributions	8,562	4,547	4,318	4,426	4,536
Other Income	953	977	1000	1025	1051
<b>Total Income</b>	<b>229,394</b>	<b>225,249</b>	<b>232,361</b>	<b>246,825</b>	<b>254,516</b>
<b>Expenses</b>					
Employee Costs	82,435	83,050	85,581	88,215	90,929
Materials, Contracts & Other Expenses	88,132	80,569	82,199	86,191	88,343
Depreciation, Amortisation & Impairment	56,040	56,835	59,353	62,012	64,675
Finance Costs	835	2,525	3,117	3,502	3,970
<b>Total Expenses</b>	<b>227,442</b>	<b>222,980</b>	<b>230,250</b>	<b>239,920</b>	<b>247,917</b>
<b>Operating Surplus / (Deficit)</b>	<b>1,952</b>	<b>2,268</b>	<b>2,111</b>	<b>6,905</b>	<b>6,598</b>

\* reflects 2023-24 Q1 Review

# Capital Budget

## LTFP Assumptions Capital Budget

Delivering on Council's Strategic Plan, including priority areas that are already articulated in the Long Term Financial Plan, will be a strong focus in the new year in developing the 2024/25 BP&B.

### Capital

- Asset Renewal Funding Ratio at 92.5% (\$48.682m)#
- Major Project Funding of \$30.917m (including Main Streets)
- New and Upgraded Capital Project Funding \$0.520m

### Treasury

- Increase in borrowings of \$17.515m (linked to capital program)
- Forecast borrowings of \$47.699m at 30 June 2025
- Net Financial Liabilities Ratio 15% (Council Target Max 80%)
- Prudential Borrowing Limit of \$181.387m

# The revised Asset Management Plans will result in an increase in funding required in order to achieve a 92.5% Asset Renewal Funding Ratio

Capital Program	2023-24 Budget*	2024-25 Plan	2025-26 Plan	2026-27 Plan	2027-28 Plan
Major Projects	41,716	30,917	21,100	15,620	15,500
New and Upgrade Projects	14,411	520	320	320	320
Renewal Projects	54,153	48,682	51,932	52,739	54,922
<b>Total Capital</b>	<b>110,280</b>	<b>80,119</b>	<b>73,352</b>	<b>68,659</b>	<b>70,742</b>

\* reflects 2023-24 Q1 Review

### Key Projects

- Central Market Arcade Redevelopment \$15.917m
- Street Upgrades \$15.000m each year:
  - Hindley St Construction
  - Gouger St Detailed Design
  - O'Connell St Detailed Design
  - Melbourne St Detailed Design
  - Hutt St Detailed Design
  - King William St Concept Design

# Capital Budget

## Capital Budget 2024/25 Capital Issues

### Capital program considerations

- Carryover of 2022/23 projects into 2023/24 and, to maintain same level of capital investment in 2023/24, identification of projects to defer to 2024/25
- Potential increase of \$6.3m to 2024/25 capital program from carryover of 2023/24 projects
- Finalisation of AMPs and financial impacts
- Adverse procurement outcomes (if market does not normalise)
- Increase in costs to date and prioritisation of capital spend (same number of projects for higher cost or fewer projects for same cost)
- Ability to capitalise project-related overheads (vs recognising in operating position)
- Limited capacity to deliver Major and New and Upgrade capital projects outside of Main Streets

### Funding Options (to balance capital program funding)

- Temporary deferral of projects
- Permanent deferral/stopping of projects
- Targeted grant funding
- Rate revenue increases
- Increases in other revenue sources

Capital Program	2024-25 Plan	2023-24 Projects Retimed*	2024-25 Revised Plan
Major Projects	30,917	4,422	35,339
New and Upgrade Projects	520	1,907	2,427
Renewal Projects	48,682	0	48,682
<b>Total Capital</b>	<b>80,119</b>	<b>6,328</b>	<b>86,447</b>

\* Projects retimed into 2024/25 from Q1 2023/24

# Long Term Financial Plan

## Financial Indicators

			2023-24*	2024-25	2025-26	2026-27	2027-28
<b>Operating Surplus Ratio</b>	Operating surplus as a percentage of operating revenue	0%-20%	0.90%	1.00%	0.9%	2.80%	2.60%
<b>Net Financial Liabilities</b>	Financial liabilities as a percentage of operating income	Less than 80%	1.90%	15%	39%	38%	39%
<b>Asset Renewal Funding Ratio</b>	Expenditure on asset renewals as a percentage of forecast required expenditure in the asset management plans	90%-110%	97%	92.5%	95%	97.5%	100%
<b>Asset Test Ratio</b>	Borrowings as a percentage of total saleable property assets	Maximum 50%	14%	13%	18%	18%	19%
<b>Interest Expense Ratio</b>	Number of times General Rates Revenue (less Landscape Levy) can service the annual interest expense	Maximum 10%	0.60%	1.30%	1.73%	1.98%	2.28%
<b>Leverage Test Ratio</b>	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1 . 5 years	0.3	0.3	0.5	0.5	0.5
<b>Cash Flow from Operations Ratio</b>	Operating income as a percentage of Operating Expenditure plus expenditure on renewal/replacement of assets	Greater than 100%	99%	100%	102%	107%	107%
<b>Borrowings</b>	Borrowings as a percentage of the Prudential Borrowing Limit	Within Prudential Limits	43.8m	47.7m	68.6m	73.6m	77.3m
			29%	26%	36%	36%	37%

\* 2023-24 reflects 2023-24 Q1 Review. All outer years is as per the adopted Long Term Financial Plan

# Next Steps

## Developing the 2024/25 BPB Proposed Council Timelines

The proposed timelines seek to manage the process in an efficient and transparent manner.

After this session, Council's intranet will be updated with key information to support the development of the 2024/25 Business Plan and Budget.

From January, we will work with Council to support understanding and position on financial principles and levers, priorities for projects and consideration of how the Strategic Plan, LTFP and Asset delivery are integrated into 2024/25.

We will work with Council to ensure that a final BP&B is adopted in June, ready to be implemented in July.

Date	Topic
5 December	Introduction and foundation to building a BP&B (Roadmap)
12 December	Rates Review discussion
6 February	Financial Sustainability and what underpins the build of the 2024/25 BP&B (Parameters, Assumptions and Principles)
13 February	Planning and priority context – Strategy, LTFP, AMP, Opportunities/Emerging Issues
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May	21 day Community Consultation (including presentation of Draft 2024/25 BP&B to Audit and Risk Committee and Subsidiary boards) and Special Hearing
June	Receipt of submissions from consultation period
25 June	Final 2024/25 BP&B