

Our Corporation

2024/25 Business Plan and Budget

Financial Sustainability,
Priorities, Finance
Levers and Council
Member's Ideas

20 February 2024
Acting Chief Operating Officer



Financial Sustainability, Priorities, Finance Levers and Council Member's Ideas

2024/25 BP&B Timeline



Date	Forum	Role	Theme	Topic	
5 December	CFG (Workshop)	Noting	Introduction	Introduction and foundation to building a BP&B (Roadmap)	<input checked="" type="checkbox"/>
12 December	Special CEO Briefing	Noting	Rates	Rate Review Discussion	<input checked="" type="checkbox"/>
6 February	Special CEO Briefing	Noting	Budget	What underpins the build of the 2024/25 BP&B (Parameters, Assumptions and Principles, including Fees and Charges)	<input checked="" type="checkbox"/>
13 February	Special CEO Briefing	Noting	Plan and Budget	Financial Sustainability and Priorities – Strategic Plan, LTFP, AMPs (including presentation from Adam Wilson – CEO of ESCOSA)	<input checked="" type="checkbox"/>
16 February	Audit and Risk Committee	Noting	Budget	What underpins the build of the 2024/25 BP&B (Parameters, Assumptions and Principles, including Fees and Charges)	<input checked="" type="checkbox"/>
20 February	CFG (Workshop)	Discuss	Plan and Budget	Financial Sustainability, Priorities, Finance Levers and Council Member's Ideas	
7 March	Special CFG (Workshop)	Discuss	Plan and Budget	Operating Budget: Strategic Projects, Service Changes, Priorities and Budget Levers (including Fees and Charges)	
19 March	CFG (Workshop)	Discuss	Plan and Budget	Capital Budget: Capital Projects, Priorities and Budget Levers	
9 April	Council	Endorse	Key Projects	Final list of Strategic and Capital projects	
12 April	Audit and Risk Committee	Endorse	Draft	Draft 2024/25 BP&B for community consultation purposes	
16 April 23 April	CFG Council	Endorse	Draft	Draft 2024/25 BP&B for community consultation purposes	
26 April – 19 May	-	Participate	Consultation	Community Consultation (including presentation of Draft 2024/25 BP&B to Subsidiary boards)	
21 May	Special Council	Participate	Consultation	Special hearing for public consultation	
11 June	Council	Receive	Draft	Receipt of submissions	
18 June 25 June	CFG Council	Adopt	Final	Final 2024/25 BP&B	

Financial Sustainability, Priorities, Finance Levers and Council Member's Ideas

Financial Sustainability within the context of the LTFP

In order to guide financial strategy and future decision making to ensure long term financial sustainability can be achieved, Council endorsed a set of Financial Principles, which include:

- Continue to deliver a minimum of the current suite of services and asset maintenance, indexed in line with Consumer Price Index (CPI)
- Fees and charges reflect cost of services provided
- Maintain an operating surplus
- Capitalise on external funding, fast-tracking projects that attract such funding, recognising the potential need for increased borrowings in order to respond to external funding opportunities
- Adjust rate revenue after consideration of all other budget components and use growth in rate revenue to partly fund servicing new rateable properties and to service new borrowings
- Capital renewal expenditure will be based on asset management plans
- New or enhanced services, assets or maintenance requiring an increase in operating costs are to be funded from the adjustment of priorities, rate revenue or other revenue increases and/or through savings
- Borrowings will be used to fund new and upgrade projects (which include major projects) and not used to fund operations, expenses or renewal projects

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

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Asset Management Plans

Renewal Program	24/25 Draft AMPs	24/25 Proposed (92.5% ARFR)	LTFP (92.5% ARFR)	Variance
Bridges	750	694	2,304	1,611
Buildings	12,114	11,205	7,248	(3,958)
Pathways	8,500	7,863	5,358	(2,504)
Kerb and Water Table	1,850	1,711	1,927	216
Lighting & Electrical	2,414	2,233	2,233	-
Park Lands & Open Space	2,995	2,770	3,547	777
Roads	9,000	8,325	6,013	(2,313)
Water Infrastructure	6,400	5,920	5,182	(738)
Traffic Signal	4,250	3,931	2,307	(1,624)
Urban Elements	3,720	3,441	3,617	176
Total Infrastructure	51,993	48,094	39,736	(8,357)
Plant, Fleet & Equipment Replacement	1,613	1,492	1,492	-
Commercial Plant, Fleet & Equipment	214	198	198	-
IT Renewals	1,720	1,591	1,591	-
Delivery Resources	6,124	5,665	5,665	-
Total Renewal Program	61,664	57,039	48,682	(8,357)

Council are in the process of reviewing and updating its AMPs, which is resulting in a funding variance against the LTFP. In line with the Financial Principles, this variance will be funded through an increase in Rates Income and Fees and Charges, and reduction in maintenance costs

Under the *Local Government Act 1999 (LGA)*, Council are required to develop Asset Management Plans (AMPs) for a period of at least 10 years, which includes information about the operation, maintenance, renewal, acquisition, expansion, upgrade and disposal for each infrastructure assets class under our care and control.

The **Asset Renewal Funding Ratio (ARFR)** 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 definition. The LGA recommends a ratio of between 90-110%

Financial Principles:

- Capital renewal expenditure will be based on asset management plans
- Borrowings will not be used to fund renewal projects

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Annual Priorities

Developing Annual Priorities

Council is required to set objectives, referred to as Annual Priorities By CoA, each financial year as per the *Local Government Act 1999*. Priority setting is an important part of Council setting and sharing its leadership approach and vision, to drive outcomes for the city. These are derived directly from the 70 Key Actions of Councils 2024-2028 Strategic Plan.

Annual Priorities Considerations

- Strategies and Plans of Council
- Council Member feedback and insights
- Capital priorities i.e. mainstreets and Charles St, One Market
- Services, Program and Projects planning and delivery
- Community Insights into Council Services – surveys, engagements, customer interactions etc
- State and Federal Government Priorities
- Legislative responsibilities
- Research initiatives such as a State of the City assessment and consideration of trends
- PESTLE Assessment to determine risks and opportunities

Recommended Priority Key Actions for 2024/25

Community

- Support increased **residential growth** and **housing affordability** through partnerships and advocacy
- Reduce rental pressures by increasing **housing supply** and unlocking properties for long- term tenants

Environment

- Work with our partners to plan for, lead and educate our community on a **climate resilient future**
- Work with partners to create innovative ways to create or convert underutilised areas to **green space**

Economy

- Work with partners, universities and businesses to **attract investment** and **improve employment opportunities**

Place

- Encourage repurposing, **adaptive reuse** and improvement of buildings and facilities
- Deliver quality street and **laneway** upgrades, **mainstreets**, **precincts**, and **neighbourhood revitalisation** and improvements that make Adelaide well-designed, safe and unique

Corporation

- Focus on **budget repair** and ensure responsible financial management through the principle of intergenerational equity while delivering quality services

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Process to Build Annual Budget

- Maintain base budget: reflects existing services and service levels
- Identify and apply permanent differences: throughout the year - Council Decisions and on-going cost/revenue impacts (e.g. Adelaide Aquatic Centre)
- Apply escalators: Enterprise Agreement, CPI (goods and services) and Other (including some revenue items)
- Incorporate one-off differences to base budget: temporary business changes (e.g. temporary closure of Central Market Arcade)
- Consider new initiatives: $\uparrow\downarrow$ service levels or stop/start a service or strategic projects, defined to be delivered within a scope and over a defined period of time to deliver on Council's Strategic Plan objectives
- Review consolidated position
- Set target surplus through adjusting levers: new initiatives, services provided, fees + charges, rate revenue & target savings - others?

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Levers and Level of Influence

- Full discretion on all levers in the long term
- Renewal Program based on evidence and revised AMPs – difficult to change in short term but can change service levels in longer term
- Some services difficult to get financial improvement quickly
- Upgraded Assets can, subject to need, be deferred
- Borrowings result from decisions relating to New Capital spend

	Expenditure (cash outflows)	Funding (cash inflows)
Limited discretion In the short term	Renewal program	Grants and sponsorship
Some discretion in the short term	Business activities / services Upgraded assets Maintenance activities	Borrowings
Full discretion in the short term	Strategic projects New assets Major projects	Rates Fees and user charges Strategic Property activities

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24-25 Projections Based on Current Assumptions

\$'000s	2024-25		
Operating Position	LTFP	Base	Variance
Income			
Rates Revenues	139,809	140,555	746
Fees and Charges	79,915	82,330	2,415
Grants, Subsidies and Contributions	4,547	4,335	(212)
Other Income	977	1,176	199
Total Income	225,248	228,396	3,148
Expenses			
Employee Costs	83,050	83,395	(345)
Materials, Contracts & Other Expenses	74,293	79,522	(5,229)
Sponsorships, Contributions and Donations	6,277	6,013	264
Depreciation, Amortisation & Impairment	56,835	56,438	397
Finance Costs	2,525	786	1,739
Total Expenses	222,980	226,154	(3,174)
Operating Surplus / (Deficit)	2,268	2,242	(26)
Capital Program			
Renewal/Replacement of Assets	48,682	57,039	(8,357)
New and Upgraded Assets	31,437	52,961	(21,524)
Total Gross Capital Program	80,119	110,000	(29,881)
Borrowings	47,699	72,098	(24,399)

Operating Position

- Base budget reflects existing services and service levels with a Strategic Project allocation of \$5.671m.
- Does not include any new or changes to Services as a result of the Strategic Plan or recent Policies endorsed. These will be considered on 7th March.

Capital Program

- Renewal/Replacement of Assets based on revised AMPs.
- Where an AMP for an asset class is yet to be revised, the proposed budget aligns to the existing LTPF allocation.
- LTFP allocation for New and Upgraded Assets includes \$15.000m commitment for Mainstreets, \$15.917m for One Market.
- Overall capital program assumes continuation of \$110.000m delivery.

Borrowings

- Based on the current base 2024/25 Budget, forecast borrowings will increase by \$24.399m to \$72.098m
- In order to sustain this level of borrowing and continue to repay over 20 years, an operating surplus of \$4.629m would need to be generated in 2024/25, and \$5.844m from 2025/26 (assuming peak debt is reached at 30 June 2025)

Financial Sustainability, Priorities, Finance Levers and Council Member's Ideas 24-25 Projections Based on Current Assumptions

Financial Indicator	Explanation	Target	2024/25 LTFP	2024/25 Base
Operating Surplus Ratio	Operating surplus as a percentage of operating revenue	0%-20%	1.0%	1.0%
Net Financial Liabilities	Financial liabilities and a percentage of operating income	Less than 80%	15%	29%
Asset Sustainability Ratio	Expenditure on asset renewals as a percentage of forecast required expenditure in the asset management plans	90%-110%	92.5%	92.5%
Asset Test Ratio	Borrowings as a percentage of total saleable property assets	Maximum 50%	13%	20%
Interest Expense Ratio	Interest expense as a percentage of General Rates Revenue (less Landscape Levy)	Maximum 10%	1.3%	1.3%
Leverage Test Ratio	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1.5 years	0.3	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%	100%	95%
Borrowings	Borrowings as a percentage of the Prudential Borrowing Limit	Within Prudential Limits	26%	40%

- Operating Surplus Ratio sits just within the target ratio.
- Cash flow from Operations base indicator illustrates that there is insufficient cash flow from the operating position to fund the renewal/replacement of assets.
- All other ratios are within Target range.

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Levers

	Operating Position	\$'000s	Rates Equivalent Revenue % Increase
1	Target Operating Position	4,629	
2	Current Base Operating Position	2,242	2.80%
3	Shortfall	2,387	1.50%

	Renewals	\$'000s	Rates Equivalent Revenue % Increase
4	Asset Management Plans @ 92.5%	57,039	
5	Renewals per LTFP	48,682	
6	Shortfall	8,357	5.95%

1. Target Operating Surplus position required to adequately service borrowings (interest and principal payments)
2. Base Operating Position incorporates Q2 adjustments, and LTFP assumptions (CPI of 2.8% applied)
3. Difference between 1 and 2, which equates to an additional 1.5% increase to Rates revenue
4. Draft renewals position as per 92.5% of the draft Asset Management Plans being considered by Council in 2023/24.
5. Renewal Program as per the adopted LTFP.
6. Difference between 4 and 5, which equates to an additional 5.95% increase to Rates revenue

Key Financial Principles:

- Adjust rate revenue after consideration of all other budget components and use growth in rate revenue to partly fund servicing new rateable properties and to service new borrowings
- Consider new and different revenue streams and the approach to commercial businesses to reduce reliance on existing revenue sources
- Borrowings will be used to fund new and upgrade projects (which include major projects) and not used to fund operations, expenses or renewal projects

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Levers

The following Operating Position and KFI's are presented illustrating the targetting operating position and Renewals funded through an increase in Rates Revenue

\$'000s	2024-25		
	LTFP	Revised	Variance
Operating Position			
<i>Income</i>			
Rates Revenues	139,809	151,299	11,490
Fees and Charges	79,915	82,330	2,415
Grants, Subsidies and Contributions	4,547	4,335	(212)
Other Income	977	1,176	199
Total Income	225,248	239,140	13,892
<i>Expenses</i>			
Employee Costs	83,050	83,395	(345)
Materials, Contracts & Other Expenses	74,293	79,522	(5,229)
Sponsorships, Contributions and Donations	6,277	6,013	264
Depreciation, Amortisation & Impairment	56,835	56,438	397
Finance Costs	2,525	786	1,739
Total Expenses	222,980	226,154	(3,174)
Operating Surplus / (Deficit)	2,268	12,986	10,718

Capital Program			
Renewal/Replacement of Assets	48,682	57,039	(8,357)
New and Upgraded Assets	31,437	52,961	(21,524)
Total Gross Capital Program	80,119	110,000	(29,881)

Borrowings	47,699	54,818	(7,119)
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Key Financial Indicator (KFI's)	Target	2024/25
Operating Surplus Ratio	0%-20%	5.4%
Net Financial Liabilities	Less than 80%	20%
Asset Sustainability Ratio	90%-110%	92.5%
Asset Test Ratio	Maximum 50%	15%
Interest Expense Ratio	Maximum 10%	1.2%
Leverage Test Ratio	Maximum 1.5 years	0.4
Cash Flow from Operations Ratio	Greater than 100%	100%
Borrowings	Within Prudential Limits	30%

Financial Sustainability, Priorities, Finance Levers and Council Member's Ideas

Member's Ideas

To be updated prior to briefing – once ideas are received

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Next Steps



Developing the 2024/25 BP&B Council Timelines

The 2024/25 BP&B timeline seek to manage the process in an efficient and transparent manner.

Date	Topic
7 Mar – Special CFG	Workshop – Operating Budget: Strategic Projects, Service Changes, Priorities and Budget Levers (including Fees and Charges)
19 Mar – CFG	Workshop – Capital Budget: Capital Projects, Priorities and Budget Levers
9 Apr – Council	Report – Final list of Strategic and Capital projects
12 Apr - ARC	Report - Draft 2024/25 BP&B for community consultation purposes
16 Apr - CFG 23 Apr – Council	Report – Draft 2024/25 BP&B for community consultation purposes
26 Apr – 19 May	Community Consultation (including presentation of Draft 2024/25 BP&B to Subsidiary boards)
21 May – Special Council	Report – Special hearing for public consultation
11 Jun – Council	Report – Receipt of submissions
18 Jun – CFG 25 Jun – Council	Report – Final 2024/25 BP&B