

Draft 2024/25 Business Plan & Budget Update

Friday, 12 April 2024
Audit and Risk Committee

Strategic Alignment - Our Corporation

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Public

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EXECUTIVE SUMMARY

This report presents the current assumptions and proposed operating and capital budgets based on the feedback received from engagement with Council Members through the various 2024/25 Business Plan and Budget reports, presentations, workshops and CEO Briefings held to date.

In addition a list of Strategic Projects, Service Changes, and New and Upgrade Capital projects was presented to Council on the 9th April to endorse for inclusion in the 2024/25 Business Plan and Budget.

The draft Operating Surplus is proposed at \$7.340m for 2024/25 to ensure adequate cash flow to support an increase in funding required for the Asset Renewal Program based on the proposed Asset Management Plans currently being consulted on. This surplus includes an Asset Renewal Repair Fund of \$4.582m.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the underpinning principles and assumptions, and proposed operating and capital budgets for inclusion in the Draft 2024/25 Business Plan and Budget for the purpose of public consultation, as outlined in this report and in Attachment A to Item 6.3 on the Agenda for the meeting of the Audit and Risk Committee meeting held on 12 April 2024.
2. Provides feedback on the underpinning principles and assumptions, and proposed operating and capital budgets for inclusion in the Draft 2024/25 Business Plan and Budget for the purpose of public consultation, as outlined in this report and in Attachment A to Item 6.3 on the Agenda for the meeting of the Audit and Risk Committee meeting held on 12 April 2024.

AND THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Endorse the Asset Renewal Repair Fund of \$4.582m resourced through a temporary increase in rates revenue for 2024/25 to deliver an Operating Surplus of \$7.340m to ensure that adequate cash flow is generated from operations to fund the renewal program for 2024/25.

IMPLICATIONS AND FINANCIALS

City of Adelaide 2024-2028 Strategic Plan	Strategic Alignment – Our Corporation Focus on budget repair and ensure responsible financial management through the principle of intergenerational equity while delivering quality services.
Policy	The Draft Business Plan and Budget 2024/25 has been prepared in accordance with Council's current Long Term Financial Plan assumptions and endorsed Financial Policies.
Consultation	Not as a result of this report
Resource	The Draft Business Plan and Budget 2024/25 identifies how Council's resources will be allocated in meeting the 2024/25 deliverables and objectives of the 2024-2028 Strategic Plan and other related plans and strategies.
Risk / Legal / Legislative	Council's Draft Business Plan and Budget 2024/25 is developed in accordance with section 123 of the Local Government Act 1999, and sections 6 and 7 of the Local Government (Financial Management) Regulations 2011.
Opportunities	Public Consultation is a key part of the Draft Business Plan and Budget 2023/24 providing the community with an opportunity to provide feedback on the draft. Community Members can provide feedback on issues that affect them with the commitment of Council to provide pathways for their input.
23/24 Budget Allocation	Not as a result of this report
Proposed 24/25 Budget Allocation	The Draft 2024/25 BP&B provides the proposed budget for 2024/25 financial year.
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

1. Council's 2024/25 Draft Business Plan & Budget (BP&B) is guided by Council's Strategic Plan 2024-2028, Long Term Financial Plan and Asset Management Plans (AMPs), other adopted strategies and plans, community feedback, interactions with partners, and Council decisions.
2. The purpose of the BP&B is to demonstrate responsible management of public funds to support community outcomes and represents Council's commitment to the community through annual priorities and proposed deliverables for the year. It also demonstrates how we align these to our services, strategies and action plans and articulates the challenges and opportunities of the current environment.
3. Several workshops have been held with Council Members to discuss the following:
 - 3.1. Introduction to building a BP&B including the underpinning parameters, assumptions and principles (including fees and charges).
 - 3.2. Financial sustainability and priorities and how it links to the Strategic Plan, Long Term Financial Plan, and Asset Management Plans.
 - 3.3. Overview of the operating budget encompassing strategic projects, services changes, priorities and budget levers.
 - 3.4. Overview of the capital budget encompassing capital projects, priorities and budget levers.
4. The principles and assumptions underpinning the development of the 2024/25 BP&B are:
 - 4.1. Continue to deliver a minimum of the current suite of services and asset maintenance, indexed in line with Consumer Price Index (CPI).
 - 4.2. Maintain an operating surplus.
 - 4.3. 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.
 - 4.4. Capital renewal expenditure will be based on Asset Management Plans.
 - 4.5. Capital enhancements (new and upgrade) in line with Council Decision to fund Central Market Arcade Redevelopment, Mainstreets (\$15m per year), in addition to other items on the final list of New and Upgrade projects.
 - 4.6. 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.
 - 4.7. 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.
 - 4.8. Borrowings will be used to fund new and upgrade projects (which include major projects) and not used to fund operations, expenses or renewal projects.
5. The financial assumptions underpinning the development of the 2024/25 BP&B include:
 - 5.1. The source of inflation forecasts (CPI) has been amended from Deloitte Access Economics to the South Australian Centre for Economic Studies (SACES).
 - 5.1.1. Administration's review of various CPI estimates and current market conditions suggests the SACES forecast appears the most prudent and relevant for South Australia.

Source	Estimated CPI 24-25
RBA	3.0%-3.6%
SACES	3.25%
CEDA	3.2%
Deloitte Access	2.9%
SA Treasury	2.75%

- 5.2. Revenue increases are linked to CPI (Rates and Fees and Charges).
- 5.3. Rates growth of 1% (from new properties).
- 5.4. Interest Rates for new borrowings are currently forecast at 5.6% based on the current LGFA rate.

- 5.5. Depreciation impacts from asset valuations performed in the 2022/23 year and the 2024/25 Capital Program.
- 5.6. Cost pressures in Materials and Consumables (utilities etc) that have increased in 2023/24 at a greater percentage than budget assumptions have been incorporated.
- 5.7. Parking Fees and Charges have increased above CPI reflecting current market conditions, and increased market share, reflecting additional annual income derived from 2 additional car parks.
- 5.8. Removal of Adelaide Aquatic Centre from Council operations following negotiations with State Government.
- 5.9. Strategic Project allocation of \$5.671m within base budget (plus recommended additional Strategic Projects of \$1.222m).

6. Rates Revenue

Short Stay Accommodation update

- 6.1. Legal advice obtained in relation to addressing short-stay accommodation identified that changing the land use from residential to commercial-other is the most appropriate option, whereby a higher rate in the dollar would be applied.
- 6.2. Administration is liaising with a third party organisation to obtain data on short-stay properties and their current availability i.e. number of nights advertised as short-stay.
- 6.3. Administration is seeking further clarification on the *Local Government Act 1999* determination of predominant land use in the context of short-term accommodation.
- 6.4. Anticipated additional income associated with a higher rate in the dollar has been factored into the opportunities identified and a net increase in revenue of \$0.172m has been incorporated into the Proposed Draft 2024/25 Budget.

Minimum Rates update

- 6.5. External legal counsel advises that Council has the ability to introduce a minimum rate to low value properties.
- 6.6. However the current structure of rating assessments prevents fair and equitable application of a minimum rate as some properties are rated individually and others combined into a single assessment.
- 6.7. As such further investigation and analysis is required for consideration by Council. Due to the expected complexity of this it is recommended this work be prioritised for the 2025/26 BP&B process.

Pension Rebate

- 6.8. At its meeting on 26 March 2024, Council requested that Administration calculate the cost of the reinstatement of a rate rebate for property owners in the City of Adelaide in receipt of an aged or disability support pension for consideration within the 2024/25 BP&B.
- 6.9. Effective 1 July 2015, the State Government introduced a new 'Cost of Living Concession' replacing the concessions formerly available on Council rates and administered by Councils. This concession provides help to people on low or fixed incomes with their general living expenses - e.g. council rates, energy and medical bills.
- 6.10. The City of Adelaide continued to provide a Pensioner Rate Rebate of \$100 per year for eligible Pensioner Concession holders until June 2021 when Council decided to cease on the basis that:
 - 6.10.1. The City of Adelaide would be one of the last remaining councils to continue to provide a rebate since the introduction of the State funded allowance.
 - 6.10.2. Continuing to provide an additional rebate could be considered double dipping and not fair and equitable for the wider community.
 - 6.10.3. In addition to the Cost-of-Living Allowance, eligible ratepayers pursuant to the Local Government Act 1999, can apply to the City of Adelaide to postpone payment of rates against their property.
- 6.11. If Council wishes to reinstate the Pensioner Rate Rebate of \$100 for eligible pensioners, it would need to be implemented by application only as we do not currently hold or maintain pensioner data.
- 6.12. The most recent Bureau of Statistics data (2023) suggest there are 1,174 recipients of the Aged Pension within the City of Adelaide area, implying total rebates of \$117,400 if all eligible applications are received.

- 6.13. The financial and administrative impact of a Pension Rebate has not been factored into the Proposed Draft 2024/25 Budget.
7. Administration planning and discussions with Council Members in the workshops mentioned above have highlighted projects, service changes, and savings and opportunities for inclusion in the 2024/25 BP&B – summarised below:
- 7.1. Strategic Projects – 29 projects totalling \$6.893m (net)
 - 7.2. Service Changes – 19 permanent changes totalling \$ 3.552m (net)
 - 7.3. Savings/Opportunities – 18 Savings/Opportunities totalling \$4.558m (net)
 - 7.4. Capital Renewal – Totalling \$56.022m
 - 7.5. Capital New and Upgrade Projects - 53 projects totalling \$56.425m (\$46.849m net of external grant funding) which includes 17 projects totalling \$3.369m (net) (gross \$5.509m) proposed to be retimed from 2023/24 Quarter 3.
8. Descriptive lists of projects, service changes, savings and opportunities for inclusion into the 2024/25 BP&B are outlined in **Attachment A**.
9. Financial implications of projects, service changes and identified savings/opportunities are summarised below:
- 9.1. Fees and Charges
- 9.1.1. The following fees and charges were identified as opportunities for consideration as part of the 2024/25 BP&B, following a benchmarking exercise against other Councils, both local and interstate.

Activity	Description	Proposed Additional Annual Revenue (\$'000)
E-Scooters (if continued)	Change fee model to potentially reduce e-Scooter clutter and increase revenue	80
City Works Daily Cap	Raise daily fee cap introduced in 2021	156
Food Inspections	Reinstate charging fees for first inspections	75
Local Nuisance Exemptions	Introduce new fee for exemption applications due to their complexity, resource impacts, and for deterrence.	8
City Works Minimum Fee	Introduce new fee to cover resource costs	3
Encroachment Fees	Increase to Application Fees	1

9.1.2. These proposed fees align to the principle to consider new and different revenue streams.

9.2. Draft Operating Position

Operating Position	\$'000s	Rates Equivalent Revenue Increase
Current Base Operating Position	2,974	3.25%
<i>Additional Strategic Projects</i>	<i>(1,222)</i>	
<i>Service Changes as a Result of new Strategies</i>	<i>(821)</i>	
<i>Ongoing Service Changes</i>	<i>(2,731)</i>	
Total Adjustments for Consideration	(4,774)	3.41%
Identified Savings / Opportunities	4,558	(3.26%)
Revised Operating Position	2,758	3.40%
Proposed Position to Fund Renewals	7,340	
Asset Renewal Repair Fund	(4,582)	3.28%
Total excluding growth		6.68%

- 9.2.1. The Current Base Operating Position takes into account the principles and assumptions that underpin the 2024/25 budget.
- 9.2.2. The Total Adjustments for Consideration take into account the projects and service changes considered by Council for inclusion in the 2024/25 budget.
- 9.2.3. Administration has identified savings and opportunities for consideration in order to offset the increase in funding required for the projects and service changes.
- 9.2.4. The Revised Operating Position is slightly less favourable to the Current Base Operating Position, representing a \$2.758m operating surplus.
- 9.2.5. Concurrent to planning and budget discussions, Council has also been deliberating on revised Asset Management Plans (AMPs), which present a funding variance against existing AMPs and Long Term Financial Plan (LTFP) allocations. As such, to maintain the principle to fund expenses and renewal projects through operating revenue (not borrowings) the proposed Operating Position for 2024/25 is a surplus of \$7.340m, which equates to the increase in renewal funding required against the adopted LTFP.
- 9.2.6. The difference between the Revised Operating Position and the Proposed Operating Position is the Asset Renewal Repair amount required, which represents a 3.28% increase to Rates Revenue.
- 9.2.7. This Operating Position will ensure that Council generates sufficient cash flow from operations to fund the Renewal Program, generating a 102% Cash Flow from Operations Ratio. It will not, however, generate sufficient cash flow to service the principal and interest repayments for new borrowings.
- 9.2.8. Overall, the proposed Rates Revenue increase for 2024/25 is 6.68%, of which 3.28% is for Asset Renewal Repair, which is considered a short term measure.

9.3. Draft Capital Program

\$'000s	Proposed Draft Position
Capital Expenditure	
Capital Expenditure on Renewal & Replacement of Existing Assets	(56,022)
Capital Expenditure on New and Upgraded Assets	(56,425)
Total Capital Expenditure	(112,447)
Amounts received specifically for New and Upgraded Assets	9,576
Net Capital Expenditure	(102,871)

- 9.3.1. Capital Expenditure on Renewal and Replacement of Existing Assets is based on the revised Asset Management Plans, representing a 92.5% Asset Renewal Funding Ratio.
- 9.3.2. Capital Expenditure on New and Upgraded Assets represents the list of capital projects included in Attachment A, which includes Central Market Arcade Redevelopment and Mainstreet revitalisation.
- 9.3.3. Confirmed external grant funding attributed to New and Upgraded Assets is included.

10. Financial summary (\$'000s)

	2024-25 Base	Revised Draft	Proposed Position	Variance to Draft
Income				
Rates Revenues	141,205	141,457	141,457	0
Asset Renewal Repair Fund			4,582	(4,582)
Fees and Charges	82,599	84,291	84,291	0
Grants, Subsidies and Contributions	4,453	4,842	4,842	0
Other Income	1,183	1,183	1,183	0
Total Income	229,440	231,773	236,355	(4,582)
Expenses				
Employee Costs	83,545	86,492	86,492	0
Materials, Contracts & Other Expenses	78,959	77,719	77,719	0
Sponsorships, Contributions and Donations	6,297	7,140	7,140	0
Depreciation, Amortisation & Impairment	56,857	56,857	56,857	0
Finance Costs	808	808	808	0
Total Expenses	226,466	229,016	229,016	0
Operating Surplus / (Deficit)	2,974	2,758	7,340	(4,582)
Capital Program				
Capital Expenditure on Renewal & Replacement of Existing Assets	(56,207)	(56,022)	(56,022)	0
Capital Expenditure on New and Upgraded Assets	(55,913)	(56,425)	(56,425)	0
Total Capital Expenditure	(112,120)	(112,447)	(112,447)	0
Amounts received specifically for New and Upgraded Assets	7,436	9,576	9,576	0
Net Capital Expenditure	(104,684)	(102,871)	(102,871)	0
Borrowings	79,726	74,865	70,283	(4,582)

10.1. The table above provides a Financial Summary of the proposed 2024/25 Budget as follows:

10.1.1. Operating Surplus of \$7.340m

10.1.2. Total Capital Expenditure of \$112.447m, offset by \$9.576m of external grant funding

10.1.3. Borrowings of \$70.283m as at 30 June 2025

11. Key Financial Indicators

11.1. A suite of financial sustainability indicators (KFIs) is used to measure Council's financial performance, to guide decision-making on major projects and significant components in the LTFP, and to secure its continued financial sustainability.

Key Financial Indicators 2024/25		Target	Proposed Position	CPI Increase only
Operating Surplus Ratio	Operating surplus as a percentage of operating revenue	0%-20%	3.1%	1.2%
Net Financial Liabilities	Financial liabilities as a percentage of operating income	Less than 80%	26%	29%
Asset Renewal Funding 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%	22%	24%
Interest Expense Ratio	Annual interest expense relative to General Rates Revenue (less Landscape Levy)	Maximum 10%	1.9%	2.1%
Leverage Test Ratio	Total borrowings relative to General Rates Revenue (Less Landscape Levy)	Maximum 1.5 years	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%	102%	99%
Borrowings	Borrowings as a percentage of the Prudential Borrowing Limit	Within Prudential Limits	\$70.283m	\$74.865m
			45%	47%

Key Financial Indicators for the Proposed Draft 2024/25 Budget

11.2. All indicators expressed are within the target ranges, indicating the council is financially sustainable for 2024/25.

Key Financial Indicators for the 2024/25 Budget with CPI Increases only

11.3. While the Operating Surplus Ratio is within the target range, it is below 2%, indicating an amber status. This indicator represents the percentage by which the major controllable revenue source varies from day-to-day operating expenses, and highlights the need for decisions around revenue growth in order to remain sustainable in the longer term.

11.4. Cash Flow from Operations is below the target of 100%. This indicator shows whether Council is generating adequate cash from its operations to cover the replacement of assets over time. A lower ratio (less than 100%) indicates that Council is not generating enough cash from operations to cover asset replacement. As a result, Council will need to fund the replacement of assets from unsustainable sources of income resulting in increased levels of borrowings.

ATTACHMENTS

Attachment A – Draft 2024/25 Business Plan and Budget – update presentation

- END OF REPORT