Our Corporation

2024/25 Long Term Financial Plan (LTFP)

Roadmap including
Key Assumptions, Parameters, Levers

23 July 2024
Acting Chief Operating Officer

CITY OF ADELAIDE

Operating Budget
2024/25 LTFP Roadmap

Date	Forum	Role	Topic
23 July (Special)	CFG (Workshop)	Discuss	Introduction and foundation to building a LTFP (Roadmap) What underpins the build of the proposed 2024/25 LTFP (Parameters, Assumptions and Levers)
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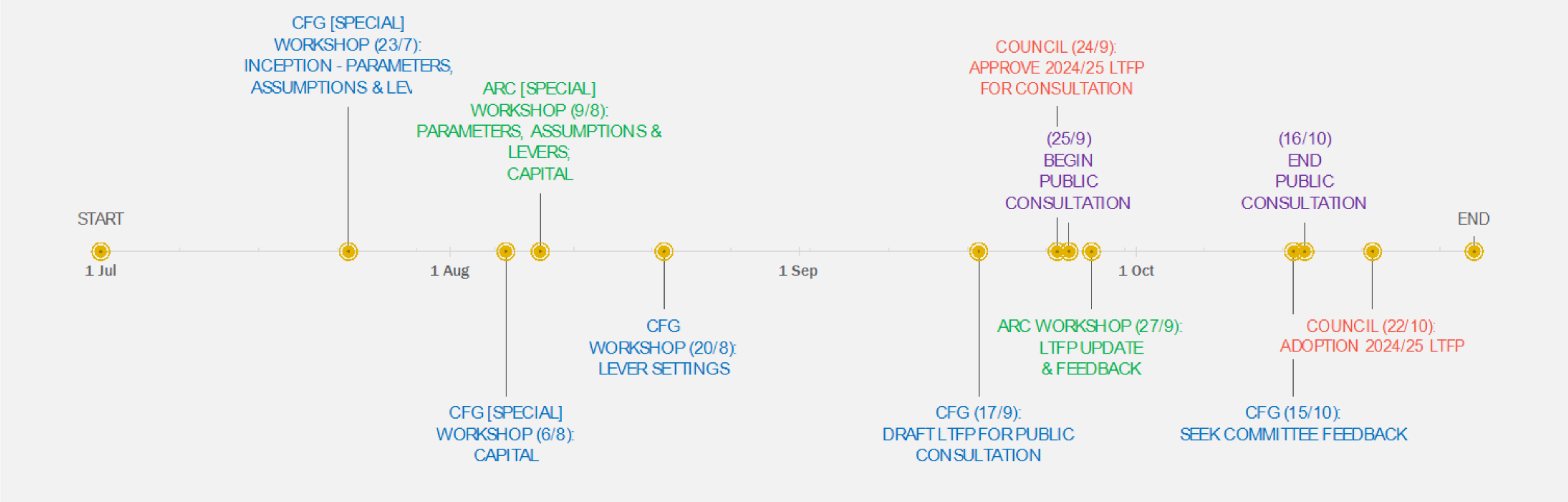
Consultations to date:

- 2024/28 Strategic Plan
- AMPs
- 2024/25 Business Plan & Budget
- Various other strategies and plans

LTFP ROADMAP



Key Discussion Points

What are Council Members' views…

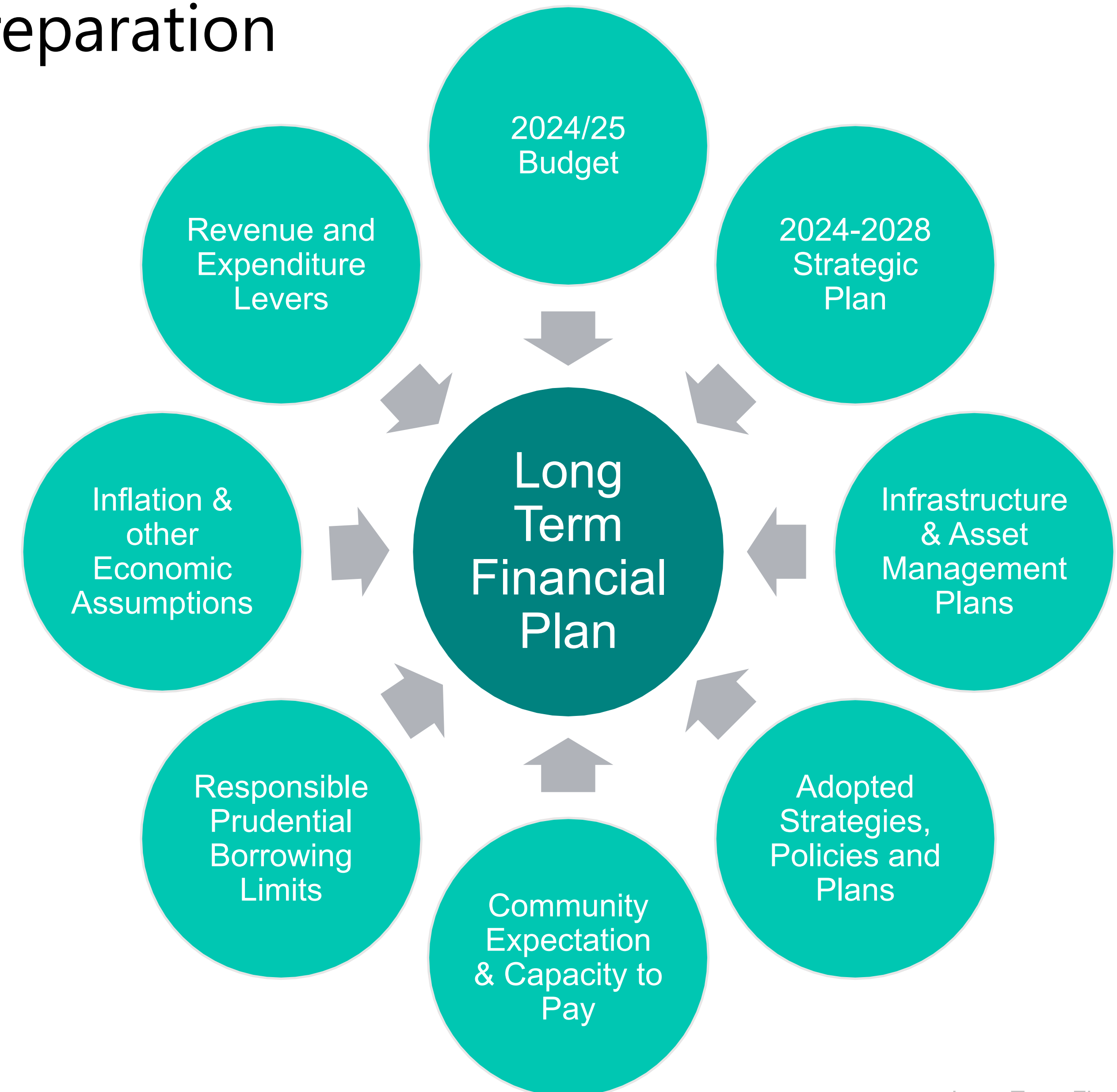
regarding Responsible Prudential Limits?

What are Council Members' views…

on the levers available to Council, and their associated settings?

Are there any other opportunities Council Members wish to consider with regard to Financial Sustainability in the Long Term?

Basis of Preparation



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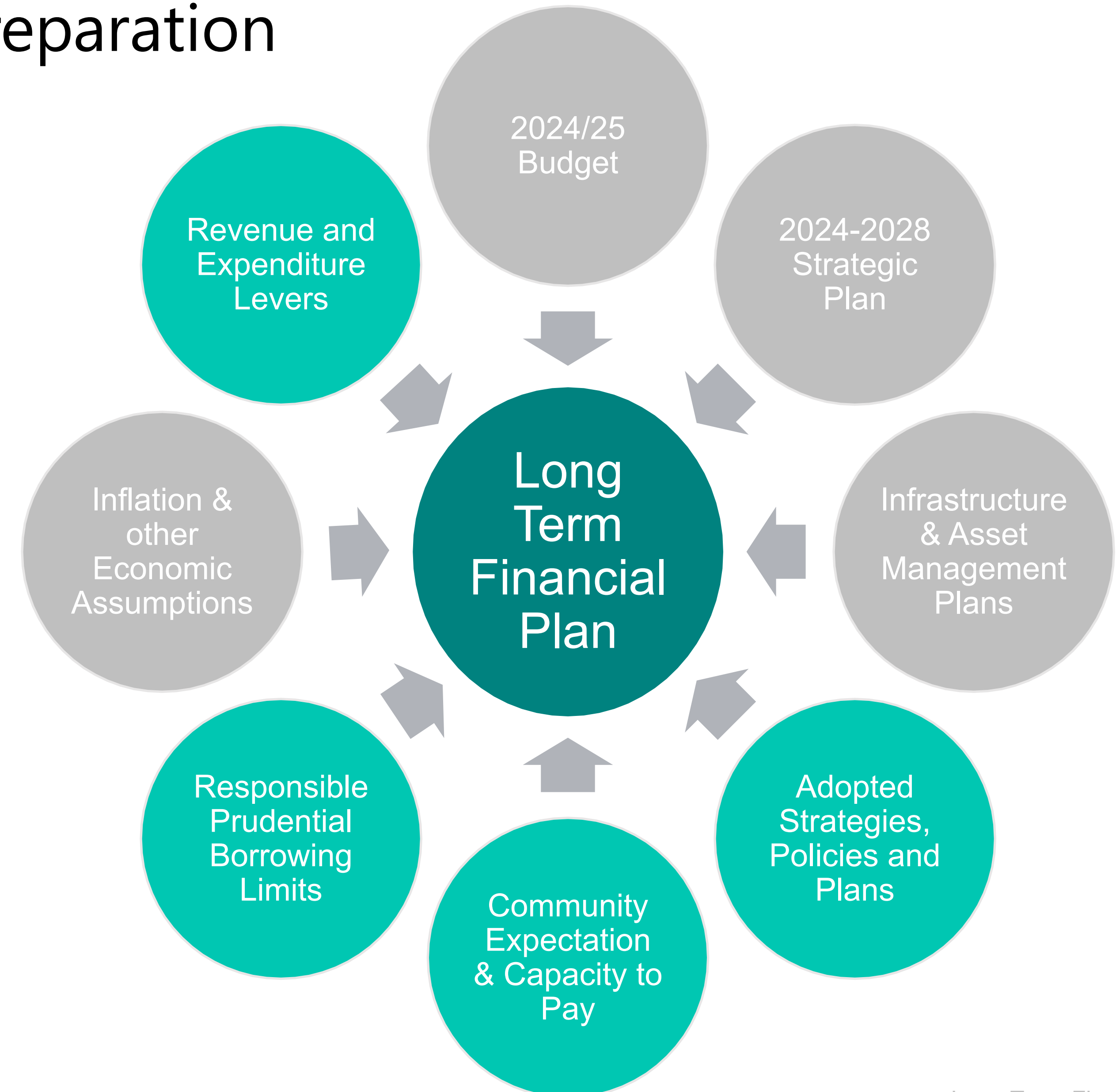


Financial Principles

In order to guide financial strategy and future decision making to ensure long term financial sustainability can be achieved, Council endorsed the following Financial Principles:

- Maintain an operating surplus to cover capital renewal projects and interest costs
- 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
- Consider new and different revenue streams and the approach to commercial businesses to reduce reliance on existing revenue sources
- 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
- Borrowings will be used to fund new and upgrade capital projects and not used to fund operations, expenses or capital renewal projects
- **Generate cash flow from operations ratio above 100% in order to repay the principal and interest associated with borrowings.**

Infrastructure Asset Management Plans (IAMP)

FEEDBACK

- The table provides a 10-year average forecast expenditure based on revised AMPs prepared in 2024, compared to the previous AMPs, both of which are in current day dollars (that is, no inflation has been applied)
- The average annual increase is $14.9m (or 23%)

The AMPs are funded through operating revenue. The levers available to fund the increase in renewals are:

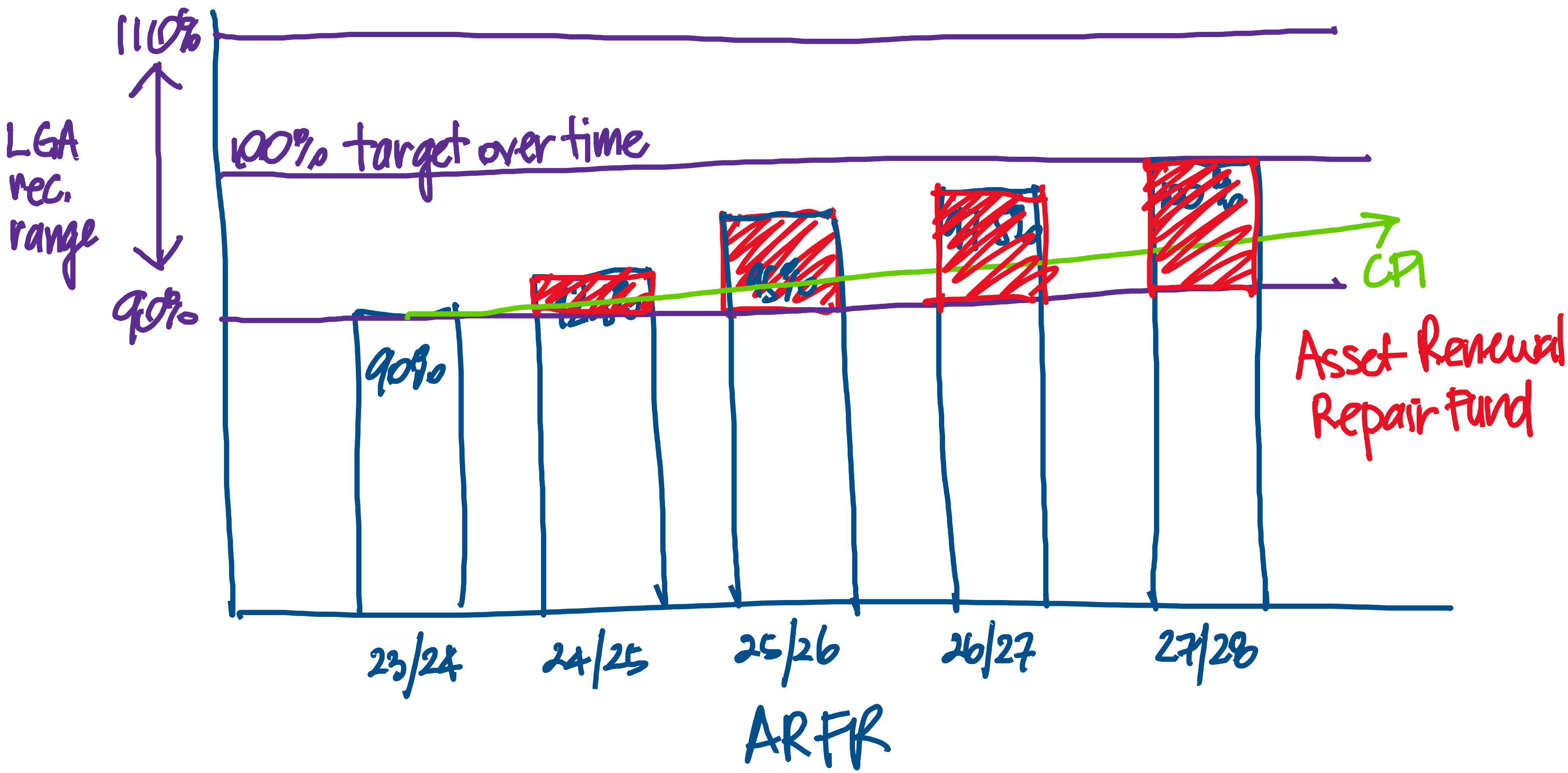
- **Rate revenue**
- **Fees and Charges**
- **Service level settings**
- **ARFR targets**

10-Year Average $000's	Revised IAMPs ^	Previous IAMPs ^	Movement	%
Transportation *	27,621	19,284	8,337	43%
Buildings *	11,051	10,409	641	6%
Water Infrastructure *	8,597	5,540	3,057	55%
Urban Elements	4,882	4,020	862	21%
Lighting & Electrical	4,876	1,826	3,050	167%
Park Lands & Open Space	2,848	4,351	(1,503)	(35%)
Total Infrastructure & Asset Management Plans	**59,875**	**45,431**	**14,444**	**32%**
Delivery Resources	6,124	5,665	459	8%
Plant, Fleet & Equipment Replacement	3,469	3,460	8	0%
Total	**69,467**	**54,556**	**14,911**	**23%**

^ 100% Asset Renewal Funding Ratio (ARFR)
* Excludes Significant Renewals

Asset Renewal Funding Ratio (ARFR)

FEEDBACK



Significant Renewals

FEEDBACK

- There are significant renewals identified within the life of the current AMPs

Significant Renewals	Financial Year	$'000s
Adelaide Bridge	2027/28 - 2028/29	60,000
Torrens Weir Structure	2028/29 – 2029/30	40,000
Rundle UPark	2030/31 – 2031/32	60,000

- Rundle UPark, in line with its most recent useful life assessment (June 2030) is assumed to cease operations in 2029/30 - a like-for-like Renewal, incorporated within the AMP, is expected to cost $60m from 2030/31
- These renewals are effectively "once in a generation" projects, and funding levers beyond operating revenue alone should be considered:
  - **Advocacy and external grant funding**
  - **Asset ownership**
  - **Borrowings (fixed principal and interest structure)**

New and Upgraded Assets

FEEDBACK

A **New Asset** is additional to Council's previous asset complement. An **Upgraded Asset** replaces a previously existing asset with enhanced capability or functionality.

- Council has committed funding to Mainstreet Revitalisation Upgrades and CMAR
- Capital and operational expenditure, and income is incorporated into the LTFP
- Current LTFP assumes forward commitment of $15m per year, beyond 2027/28
- Adoption of the 2024-2028 Strategic Plan, and the Integrated Climate Strategy, may require additional funding for New and Upgraded Assets
- 1.5% Rates revenue to upgrade buildings in the Park Lands

The levers available to Council to deliver New and Upgraded Assets are:

- **Surplus cash from operating and renewal activities**
- **External grant funding**
- **Borrowings**
- **Prioritise commitment**

Prudential Limits

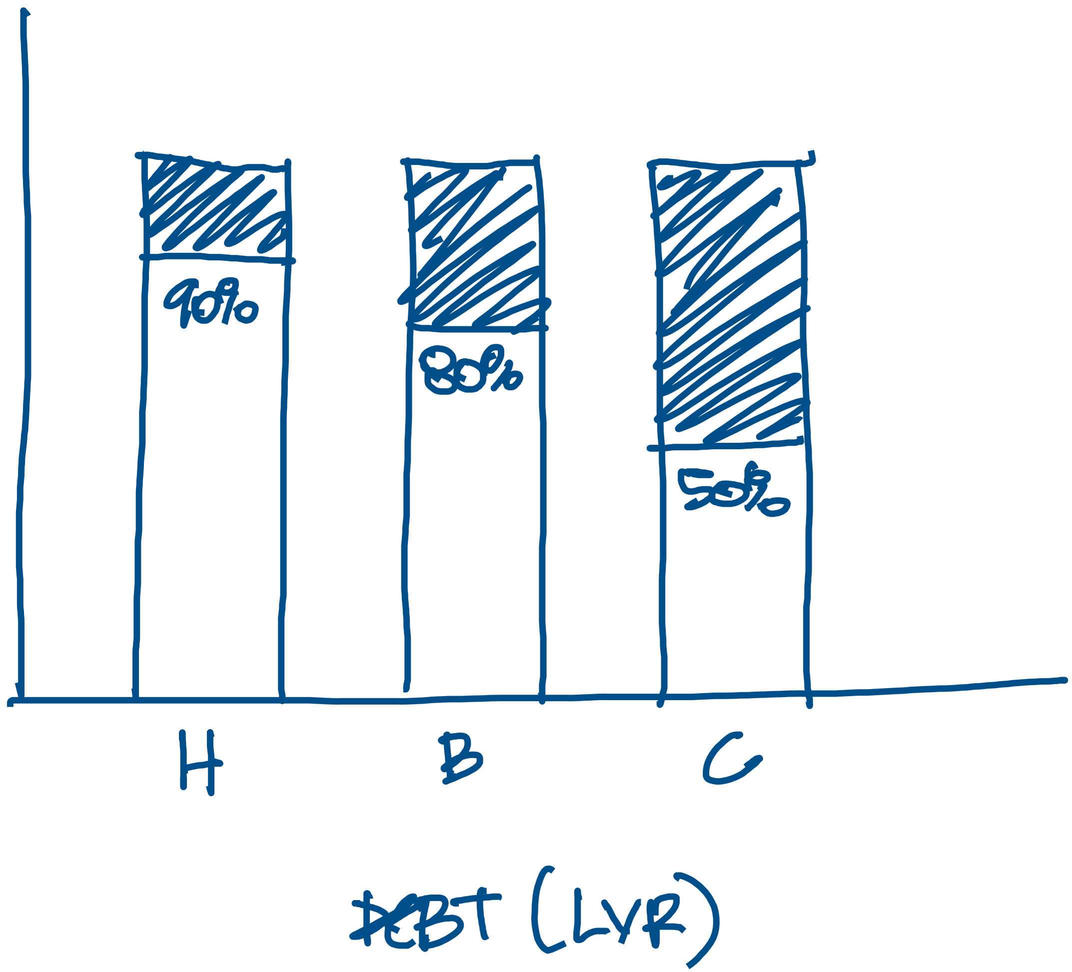
The maximum level of debt is prescribed by way of **prudential limits**. The upper limit is determined through financial indicators. When borrowing, Council will consider the following financial indicators:

Indicator	Asset Test Ratio	Interest Expense Ratio	Leverage Test Ratio
Calculation	Borrowings as a percentage of total saleable property assets	Interest expense as a percentage of General Rates Revenue (less Landscape Levy)	Total borrowings relative to General Rates Revenue (Less Landscape Levy)
Target	Maximum 50%	Maximum 10%	Maximum 1.5 years
Explanation	Similar to the Debt to Value Ratio (LVR) in that it compares the amount of borrowings against the value of assets, which are often used as security for loans. As many of council's assets are not able to be sold, the calculation only includes the market value of building assets which can be sold	This ratio measures the affordability of Council's debt. The ratio indicates the percentage of rates revenue attributed to servicing the debt on an annual basis.	Similar to a debt-to-income ratio (DTI), it compares the amount of debt to overall income. The Ratio indicates the time it would take to repay borrowings through council's controllable revenue source, general rates revenue.

Council is conservative in setting the prudential limit. The appetite of the chamber for debt will be explored through the development of the LTFP and prudential limit settings.

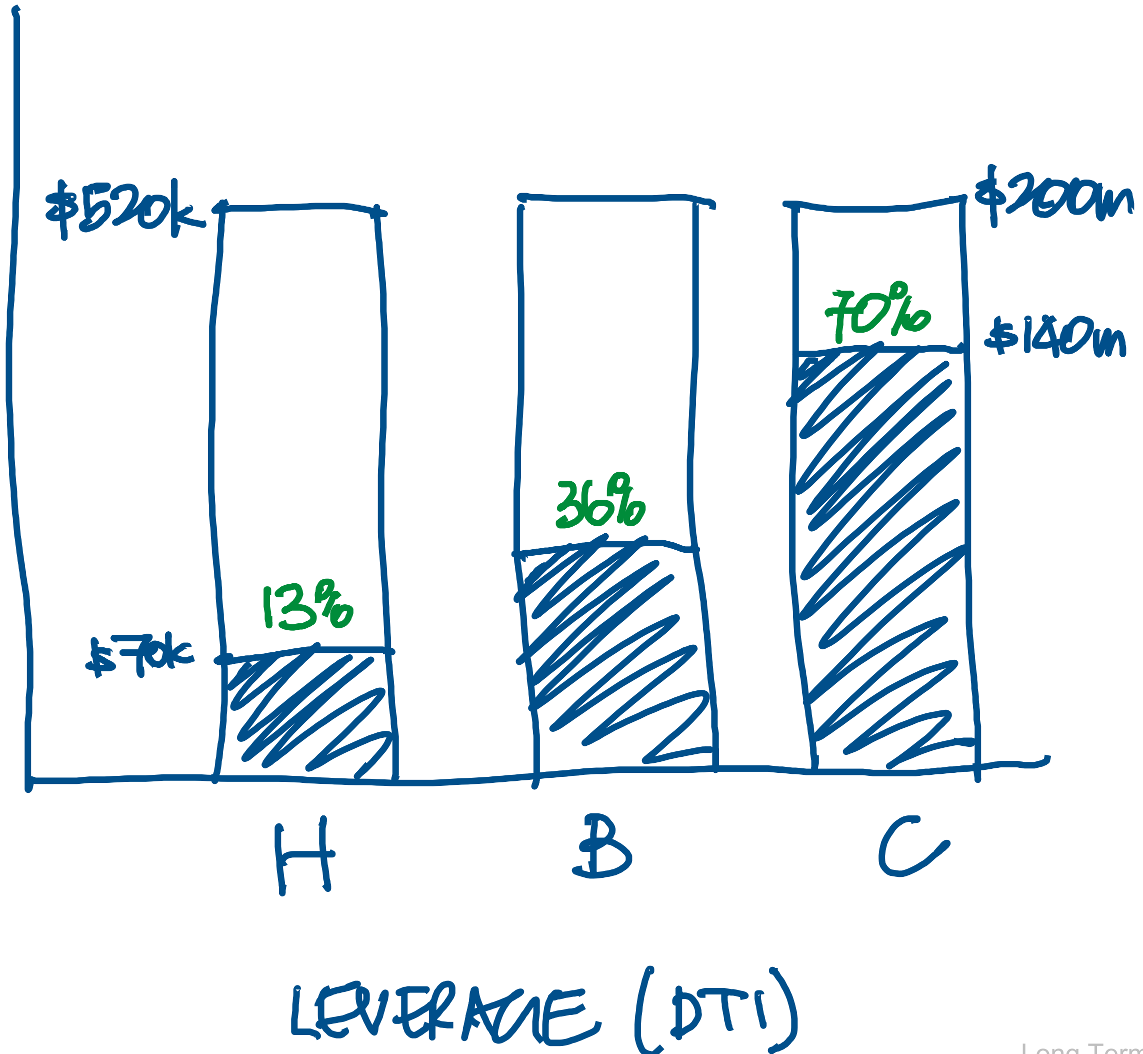
Prudential Limits
Asset Test Ratio

FEEDBACK



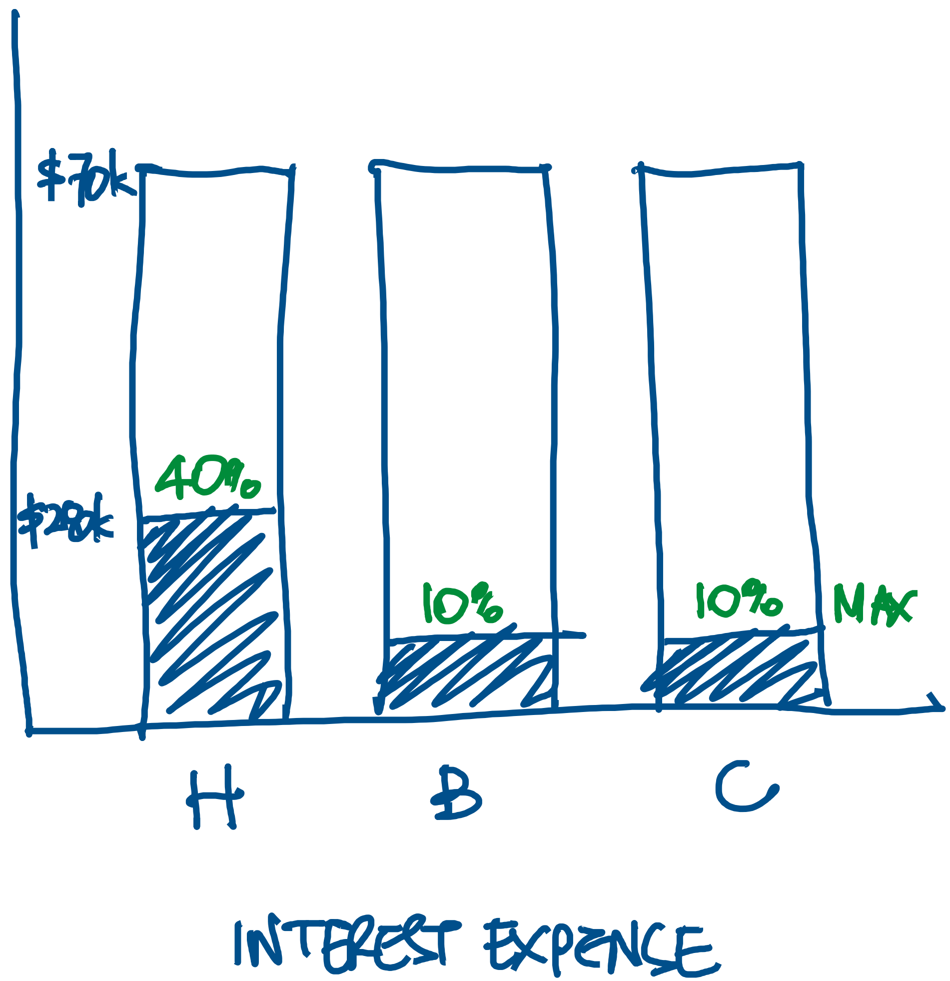
Prudential Limits
Leverage Test Ratio

FEEDBACK



Prudential Limits
Interest Expense Ratio

FEEDBACK



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What are Council Members' views…

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Are there any other opportunities Council Members wish to consider with regard to Financial Sustainability in the Long Term?

Thank you –
questions or comments?

What is the LTFP?

PRE- READING

- 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 Council's financial capacity to deliver services, maintain assets and achieve its strategic objectives in a financially sustainable manner.
- The LTFP is a projected report based on information known at the time. As such the review process of the LTFP is iterative and will change as new or updated information is presented.
- Legislatively, Council must adopt a LTFP within the first two years of being appointed. CoA's approach is to develop and adopt the LTFP in consultation with Council each year, and review it quarterly to reflect the latest available information.
- Key outputs include a comprehensive set of financial indicators and forecast financial statements in accordance with legislative requirements.

Financial Sustainability

PRE- READING

The Australian Local Government Association's definition of financial sustainability is as follows:

- "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."

It is based on the premise that:

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

Basis of Preparation

PRE- READING

Projecting forward, the LTFP considers:

- The 2024/25 budget, which forms the ‘base’ year, with assumptions applied to subsequent years, adjusted for known structural changes
- Council’s 2024-2028 Strategic Plan, Infrastructure and Asset Management Plans, and adopted Strategies, including planned investment in new projects and infrastructure
- The social, economic and political environment, including indicators such as population growth, inflation 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 Council’s current financial position and financial sustainability

Financial Principles

PRE- READING

In order to guide financial strategy and future decision making to ensure long term financial sustainability can be achieved, Council endorsed the following Financial Principles:

- Transparency in decision making
- 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 the rating system
- 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
- Consider new and different revenue streams and the approach to commercial businesses to reduce reliance on existing revenue sources
- 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

Financial Principles cont...

PRE- READING

- 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
- Consider the disposal, purchase and /or repurposing of property assets to unlock the potential and future prosperity of the City, without incurring a financial loss
- Borrowings will be used to fund new and upgrade capital projects and not used to fund operations, expenses or capital renewal projects

Proposed additional Principle

- **Generate cash flow from operations ratio above 100% in order to repay the principal and interest associated with borrowings.**

Key Assumptions
Underpinning this LTFP

PRE- READING

The current adopted LTFP incorporates the following assumptions and parameters:

- Rates Revenue increases in line with forecast inflation (excluding growth from new developments)
- Fees and charges increased in line with forecast inflation
- Salaries and wages forecasts based on enterprise agreements; once expired, forecast inflation applied
- Other revenue and expenditure growth, in general, in line with forecast inflation
- Interest rates relative to market expectations
- Capital renewal expenditure in line with Infrastructure and Asset Management Plans (IAMPs), returning to 100% Asset Renewal Funding Ratio (ARFR) by 2027-28
- Capital enhancements (new and upgrade) in line with Council Decision to fund $15m over current term of council and assumed continuation.

Asset Renewal & Asset Management Plans

PRE- READING

- Infrastructure and Asset Management Plans (IAMPs), part of Council's suite of Strategic Management Plans, are reviewed in detail every four years to identify asset condition and consumption to assist in resource and maintenance planning
- A desktop update is completed on an annual basis between the four-year cycle to ensure price escalation and asset condition is kept up-to-date
- Detailed modelling enables Council to optimise maintenance and renewal expenditure to ensure asset sustainability.

Asset Renewal Funding Ratio

PRE- READING

- The Asset Renewal Funding Ratio (ARFR) represents expenditure on asset renewals as a percentage of forecast expenditure required as per the asset management plans.
- 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.
- The revised AMPs determine the renewal requirement based on condition of the asset as well as the service levels approved by Council.
- The Local Government Act 1999 (SA) recommends a target ratio between 90% and 110%. That is, council needs to renew between 90-110% of what is required within the AMPs for that given year
- The current adopted LTFP assumes a gradual ARFR increase from 92.5% in 2024/25 to 100% by 2027/28 - this results in an Asset Renewal Repair Fund requirement of $13.225m over the next three years

Borrowings

PRE- READING

- Council must maintain and upgrade existing infrastructure, and provide new infrastructure to meet changing community needs
- To deliver these important projects and infrastructure, council utilises money from Local Government Financing Authority (a State-backed entity), which creates a debt, or money owed, to be repaid over a period of time (similar in concept to a housing loan)
- If council were to fund infrastructure via rates only, rates would be higher than they are now and have been in the past - the current community would foot the bill for this infrastructure, which has a significant lifespan and will be utilised and benefited by not only the current community that paid for it, but by future communities that have not contributed to it
- Debt assists with funding new infrastructure and upgrades to existing infrastructure without severely increasing rates to do so - this is what is known as intergenerational equity, where everyone contributes equitably over time to the infrastructure they utilise

Treasury Policy

PRE- READING

Council's Treasury Policy sets out the level of overall borrowing that Council can sustain, and considers the following:

- Strategic planning for the future, covering short, medium and long-term spending and investment requirements
- Current and estimated future revenues and the ability to increase the revenue stream through rates growth, user charges, additional grant funds or commercial activities
- That borrowings can be a critical component of the funding mix to enable Council to respond to immediate, unforeseen pressures, and to leverage future opportunities, including matching external grant funding for revenue generating assets, strategic infrastructure works, and non-revenue generating projects
- That the use of borrowings to fund capital expenditure can be effective in linking the payment for an asset to the successive ratepayer base who will benefit over the life of that asset - this user pays matching concept is known as intergenerational equity
- Current and future funding needs for both operating and capital expenditures

Treasury Policy cont…

PRE- READING

- The 'risk appetite' of Council, as defined by Council's prudential limits
- That the achievement of a low level of debt or even debt free status should not be primary goals in and of themselves, rather that long-term financial strategies should aim for a financial structure where annual operational expenditure and asset renewals are met from annual funding sources such as rates, fees and charges or operating grants

Risks and Opportunities

PRE- READING

- The LTFP, whilst based upon latest available information, is a future projection and subject to change and risk
- The LTFP is a tool for Council to assess the long-term financial impact of its decisions
- Council has endorsed several new Strategies and Plans during the 2023/24 Financial Year - these need to be costed and prioritised for inclusion in the LTFP
- Inherent risks, such as unforeseen economic, political, environmental and market changes, are difficult to anticipate - on this basis, key risks should be considered to guide future actions and opportunities

Key risks

PRE- READING

Examples of key risks include:

- Interest Rate Risk: interest rate movements can impact council's ability to sustain and repay borrowings
- Inflationary pressures on materials: movement in materials costs, especially for infrastructure, can impact delivery cost, and the value of our assets and renewal commitments
- Inflationary pressures on wages: cost of living pressures may result in higher wage increases through Enterprise Agreements in the medium to long term
- Community capacity to pay: ability to generate required rate revenue increases to meet funding demands
- Growth aspirations: operational and capital cost pressures to provide necessary hard and soft infrastructure for a higher number of residents

Opportunities

PRE- READING

Examples of opportunities include:

- Growth aspirations: increased rate revenue (spread across more residents), boost to local businesses (through higher local spend) and shift in rate burden from business to residential properties
- Commercial initiatives: parking?
- Parking changes across the city: boost access to businesses through behavioural change
- Grant and co-contributions funding from external providers including State and Federal Government