

# Our Corporation

2024/25 Long Term  
Financial Plan (LTFP)

Roadmap including  
Key Assumptions, Parameters,  
Levers and Capital discussion

9 August 2024  
Acting Chief Operating Officer



# 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)	<input checked="" type="checkbox"/>
6 August (Special)	CFG (Workshop)	Discuss	Capital - AMP impacts; Rundle UPark; Adelaide Bridge / Weir; New and upgrade	<input checked="" type="checkbox"/>
9 August (Special)	ARC (Workshop)	Discuss	Introduction and foundation to building a LTFP (Roadmap) What underpins the build of the proposed 2024/25 LTFP (Parameters, Assumptions and Levers) Capital - AMP impacts; Rundle UPark; Adelaide Bridge / Weir; New and upgrade	
20 August	CFG (Workshop)	Discuss	Lever settings - Revenue Assumptions, Service Delivery, Borrowings Market Expansion Assumptions (Operating Impacts)	
17 September	CFG	Endorse	Finalise and endorse consultation draft	
24 September	Council	Approve	Approve consultation draft	
25 September	Begin public consultation	Consultation	21 days public consultation (Strategic Management document)	
27 September	ARC	Consultation	Feedback on consultation draft 2024/25 LTFP	
15 October	CFG	Endorse	Seek Committee feedback on draft 24/25 LTFP	
16 October	End public consultation	Consultation	21 days public consultation (Strategic Management document)	
22 October	Council	Approve	Adopt 24/25 LTFP Including consultation feedback	

# Key Discussion Points

What are ARC Members' views...

on the current prudential borrowing limits?

What are ARC Members' views...

on preferred application of funding levers in the LTFP?

What are ARC Members' views...

on the assumptions in relation to Significant Renewals?

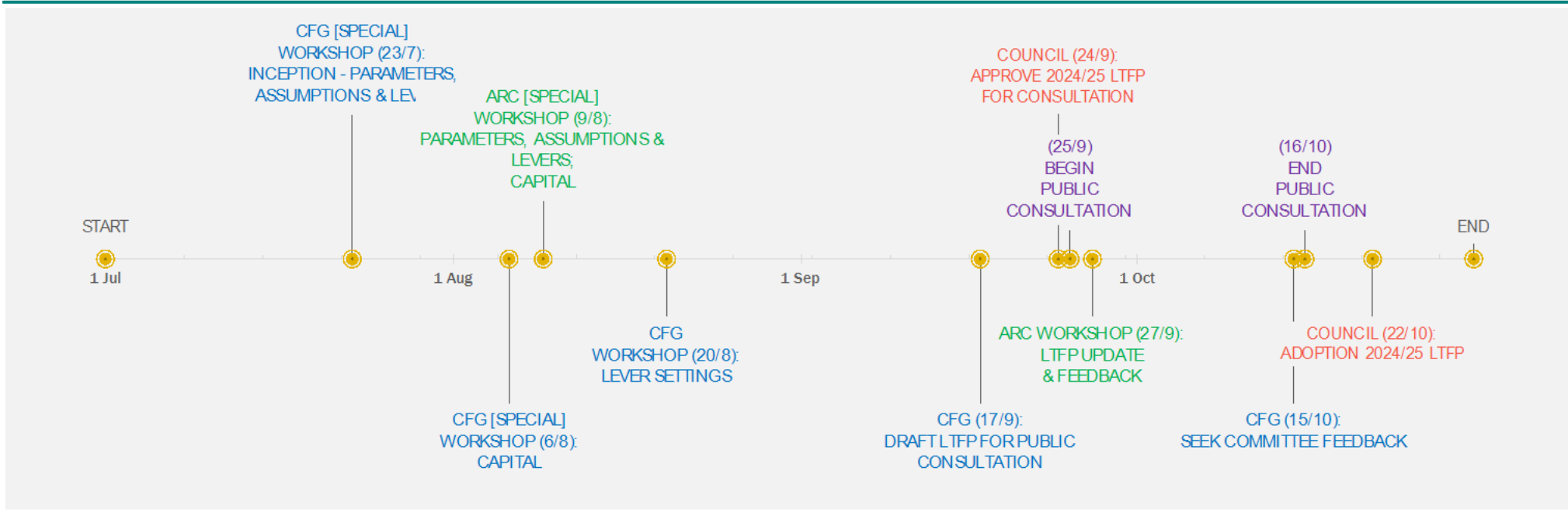
What are ARC Members' views...

on the level of investment in New and Upgraded Assets?

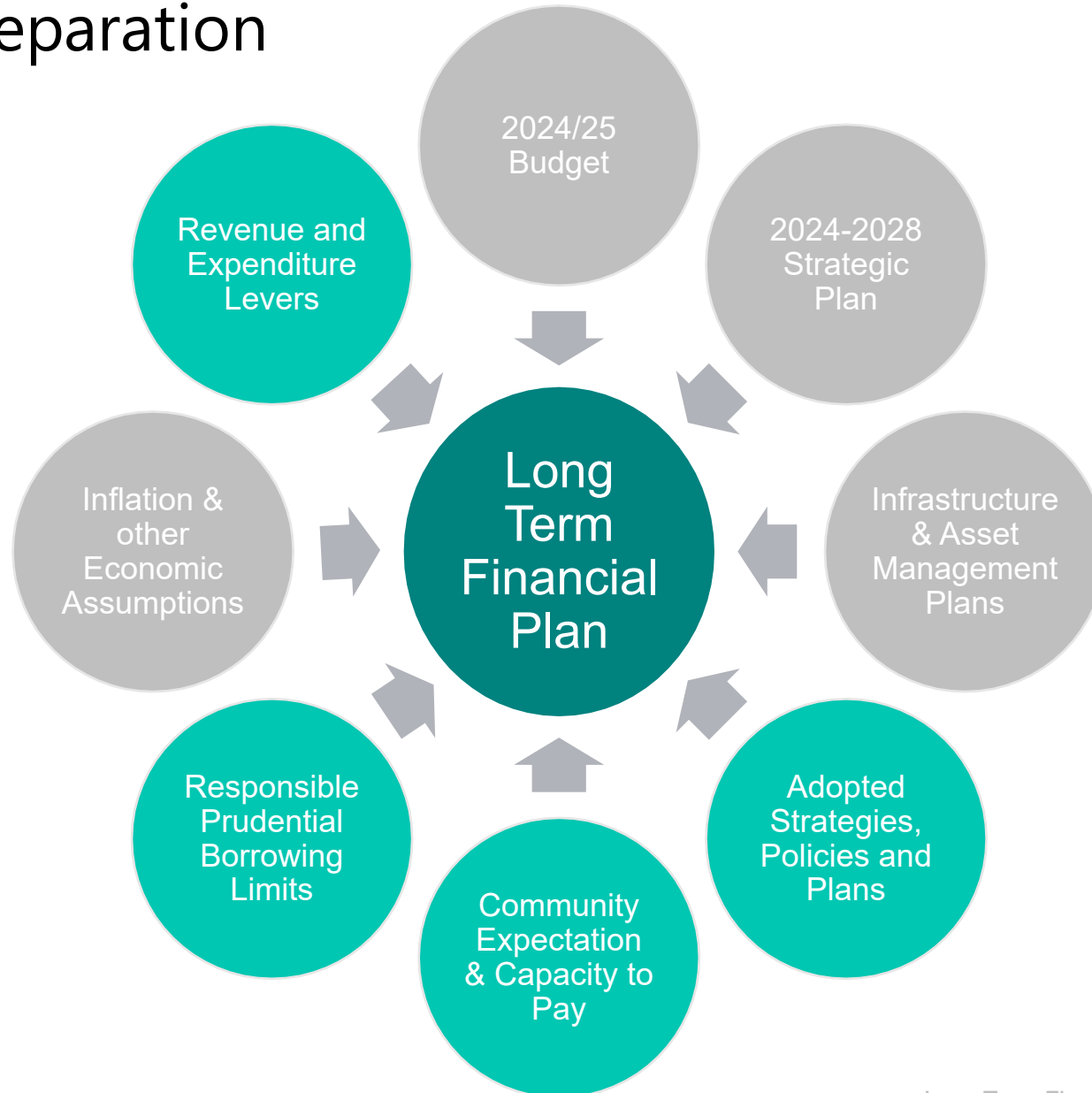
Consultations to date:

- 2024/28 Strategic Plan
- Asset Management Plans
- 2024/25 Business Plan & Budget
- Various other strategies and plans

LTFP ROADMAP



# Basis of Preparation



# Challenges for long term financial planning

- Continue to deliver to community expectations and the process of budget repair
- Increased cost to maintain existing assets (as per adopted AMPs)
- Cost to renew significant assets
- Existing commitments for New & Upgrade projects
- Allowance for New & Upgrade projects into the future
- Constraints within existing Prudential Borrowing Limits
- Balancing long term financial sustainability with sustainable rate increases

# Infrastructure Asset Management Plans (IAMP)

- 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%)
<b>Total Infrastructure &amp; Asset Management Plans</b>	<b>59,875</b>	<b>45,431</b>	<b>14,444</b>	<b>32%</b>
Delivery Resources	6,124	5,665	459	8%
Plant, Fleet & Equipment Replacement	3,469	3,460	8	0%
<b>Total</b>	<b>69,467</b>	<b>54,556</b>	<b>14,911</b>	<b>23%</b>

^ 100% Asset Renewal Funding Ratio (ARFR)

\* Excludes Significant Renewals

# Asset Renewal Funding

- The **unindexed** 10-year forecast expenditure based on revised AMPs at 100% ARFR is \$69.5m
- Current assumption sees a transition of the Asset Renewal Funding Ratio (ARFR) to 100% over a 4-year period
- Commitment to upgrade Mainstreets requires associated renewals to be brought forward

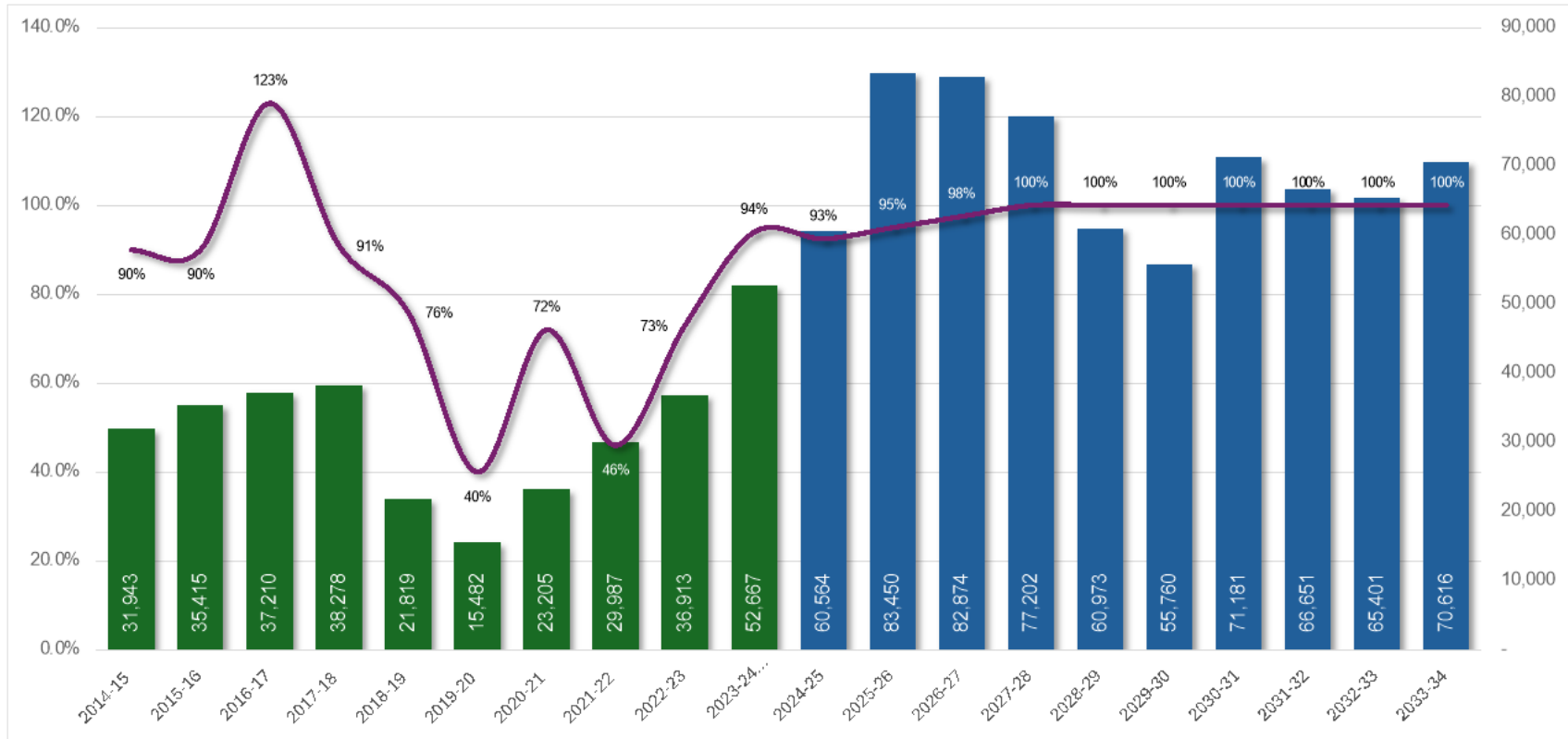
2024 AMP Forecasts (\$'000s)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	10 Year average
Transportation	21,577	25,475	24,239	26,322	29,978	29,748	32,948	29,298	28,298	28,323	<b>27,621</b>
Buildings	12,114	15,200	16,585	12,200	12,160	8,050	8,050	9,050	9,050	8,050	<b>11,051</b>
Water Infrastructure	4,800	5,584	5,261	9,494	3,472	3,472	13,472	13,472	13,472	13,472	<b>8,597</b>
Urban Elements	3,270	5,300	2,470	3,550	4,443	4,893	6,688	5,393	5,393	7,420	<b>4,882</b>
Lighting & Electrical	1,914	4,150	3,100	4,900	5,783	5,783	5,783	5,783	5,783	5,783	<b>4,876</b>
Park Lands & Open Space	2,095	3,599	4,335	4,793	2,710	1,507	1,787	1,330	1,078	5,241	<b>2,848</b>
<b>Total Infrastructure Renewals</b>	<b>45,770</b>	<b>59,308</b>	<b>55,990</b>	<b>61,259</b>	<b>58,546</b>	<b>53,453</b>	<b>68,728</b>	<b>64,326</b>	<b>63,074</b>	<b>68,289</b>	<b>59,874</b>
Delivery Resources	6,124	6,124	6,124	6,124	6,124	6,124	6,124	6,124	6,124	6,124	<b>6,124</b>
Plant, Fleet & Equipment Replacement	3,547	3,546	3,415	3,400	3,529	3,409	3,555	3,427	3,429	3,429	<b>3,469</b>
<b>Total Renewal of Assets (exc Mainstreets)</b>	<b>55,441</b>	<b>68,978</b>	<b>65,529</b>	<b>70,783</b>	<b>68,199</b>	<b>62,986</b>	<b>78,407</b>	<b>73,877</b>	<b>72,627</b>	<b>77,842</b>	<b>69,467</b>
Mainstreet Impact	5,123	14,472	17,345	6,419	(7,226)	(7,226)	(7,226)	(7,226)	(7,226)	(7,226)	<b>0</b>
<b>Total Renewal &amp; Replacement of Assets</b>	<b>60,564</b>	<b>83,450</b>	<b>82,874</b>	<b>77,202</b>	<b>60,973</b>	<b>55,760</b>	<b>71,181</b>	<b>66,651</b>	<b>65,401</b>	<b>70,616</b>	<b>69,467</b>

\* Excludes Significant Renewals



# Asset Renewal Funding

- The chart provides the **Asset Renewal Funding Ratio** over a 20-year period, illustrating:
  - Historical 10-year actuals
  - 10-year forecast expenditure based on revised AMPs



FEEDBACK

# Asset Renewals & ARFR

Current State of Play	<ul style="list-style-type: none"> <li>• AMPs recently adopted</li> <li>• Requires significant funding to reach 100% ARFR</li> <li>• Likely focus of ESCOSA review</li> </ul>
Options	<ol style="list-style-type: none"> <li>1. Maintain current position to reach 100% ARFR over 4 years</li> <li>2. Transition to 100% over a longer period (eg 8 years)</li> <li>3. Target a lower ARFR, say 92.5%, over the life of the LTFP (subject to monitoring condition of assets)</li> <li>4. Normalise impact of Mainstreet Renewals</li> </ol>
<b>Preferred Assumption for LTFP</b>	<ol style="list-style-type: none"> <li><b>1. Maintain current position - transition to 100% over 4 years</b></li> <li><b>2. Adjust program to fund \$69m per annum average</b></li> </ol>
Why	<ul style="list-style-type: none"> <li>• Meets ESCOSA expectations</li> <li>• Delivers on the AMPs with appropriate level of funding</li> </ul>
Implications	<ul style="list-style-type: none"> <li>• Without larger increase in rates, debt will need to be utilised to fund the AMP with Mainstreets</li> </ul>

	2025-26		2026-27		2027-28		Total Increase	
\$000's	\$	%	\$	%	\$	%	\$	%
Asset Renewal Repair Fund (exc ARFR Increase)	9,938	7.2%	-	0.0%	-	0.0%	9,938	7.2%
Asset Renewal Funding Ratio Increase	1,514	1.1%	1,776	1.2%	1,776	1.1%	5,065	3.4%
<b>Total Rates Impact</b>	<b>11,452</b>	<b>8.3%</b>	<b>1,776</b>	<b>1.2%</b>	<b>1,776</b>	<b>1.1%</b>	<b>15,003</b>	<b>10.5%</b>

# Significant Asset Renewals

- 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)**

# Significant Asset Renewals

- There are 3 significant assets reaching their theoretical end of useful lives:
  - **Adelaide Bridge**
  - **Torrens Weir**
  - **Rundle UPark**
- Given the quantum of funds anticipated, it is recommended to remove these from the usual day-to-day renewal program, and develop a specific assumption for each asset within the LTFP
- Various approaches for each asset are discussed on the following slides

Significant Renewals (un-indexed)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total 10 years
Adelaide Bridge				30,000	30,000						60,000
Torren's Weir					20,000	20,000					40,000
Rundle Upark								30,000	30,000		60,000
<b>Total Significant Renewals</b>	-	-	-	30,000	50,000	20,000	-	30,000	30,000	-	160,000

FEEDBACK

# Adelaide Bridge

<p>Current State of Play</p>	<ul style="list-style-type: none"> <li>• Council adoption of 2020/21 LTFP assumed like for like replacement</li> <li>• Adopted Transportation AMP assumes full replacement on a like for like basis</li> <li>• Options analysis being undertaken (complete Dec 2024)</li> <li>• Useful life to 2027/28</li> </ul>
<p>Options</p>	<ol style="list-style-type: none"> <li>1. Extend current useful life</li> <li>2. Renew to support current load bearing</li> <li>3. Upgrade to increase load bearing</li> </ol>
<p><b>Preferred Assumption for LTFP</b></p>	<ol style="list-style-type: none"> <li><b>1. Renew with existing load bearing</b></li> <li><b>2. CoA funds 50% (net \$30m) over 2 years</b></li> <li><b>3. Advocate for financial assistance for 50% funding contribution</b></li> </ol>
<p>Why</p>	<ul style="list-style-type: none"> <li>• Provides a definitive funding position for inclusion in LTFP</li> <li>• Options analysis will provide more detailed approaches &amp; costs</li> <li>• Provides advocacy time to secure a clear funding assistance outcome</li> <li>• Upgrade meets Council’s preferred option as part of transport strategy</li> </ul>
<p>Implications</p>	<ul style="list-style-type: none"> <li>• Reliant on 50% contribution, yet to be secured</li> </ul>

FEEDBACK

# Torrens Weir

<p>Current State of Play</p>	<ul style="list-style-type: none"> <li>• Council adoption of 2020/21 LTFP assumed like for like replacement</li> <li>• Adopted Water Infrastructure AMP assumes full replacement on a like for like basis</li> <li>• Options analysis being undertaken (complete Dec 2024)</li> <li>• Useful life to 2028/29</li> </ul>
<p>Options</p>	<ol style="list-style-type: none"> <li>1. Extend current useful life</li> <li>2. Renew like for like</li> <li>3. Alternative solution (eg retain for heritage with a new functional weir behind it)</li> </ol>
<p><b>Preferred Assumption for LTFP</b></p>	<ol style="list-style-type: none"> <li><b>1. Renew like for like</b></li> <li><b>2. Assume 100% funding by CoA, over 2 years</b></li> <li><b>3. Advocate for financial assistance</b></li> </ol>
<p>Why</p>	<ul style="list-style-type: none"> <li>• Provides a definitive funding position for inclusion in LTFP</li> <li>• Options analysis will provide more detailed approaches &amp; costs</li> <li>• Provides advocacy time to secure a clear funding assistance outcome</li> </ul>
<p>Implications</p>	<ul style="list-style-type: none"> <li>• \$40m requirement from 2028/29 to 2029/30</li> <li>• Alternative solution would be considered new and upgrade and increase debt</li> </ul>

# Rundle UPark

FEEDBACK

<p>Current State of Play</p>	<ul style="list-style-type: none"> <li>• Council resolved not to undertake like-for-like replacement <u>and</u> remove from LTFP and conduct EOI process in future for redevelopment (13 April 2021)</li> <li>• Adopted Buildings AMP assumes full replacement like for like</li> <li>• Removed from LTFP (costs &amp; revenues)</li> <li>• Useful life to 2030/31</li> <li>• Further Council discussions to identify asset priorities and recommendations, through a CoA Strategic Property workshop (29 August 2024)</li> </ul>
<p>Options</p>	<ol style="list-style-type: none"> <li>1. Extend current useful life</li> <li>2. Replace the asset like for like</li> <li>3. Redevelop the site and / or sell the asset</li> </ol>
<p><b>Preferred Assumption for LTFP</b></p>	<ol style="list-style-type: none"> <li><b>1. Reinstate in LTFP</b></li> <li><b>2. Extend useful life</b> (assume \$15m over 2 years)</li> <li><b>3. Reinstate associated revenue</b> whilst considering</li> <li><b>4. Redevelopment opportunities</b></li> </ol>
<p>Why</p>	<ul style="list-style-type: none"> <li>• Accounts for asset in LTFP &amp; provides a definitive funding position</li> <li>• Recognises the net revenue generated by the asset</li> <li>• Provides time to develop options to redevelop</li> </ul>
<p>Implications</p>	<ul style="list-style-type: none"> <li>• Need for shorter term leases upon renewal</li> </ul>

# Significant Asset Renewals funding assumptions

- The following table provides the cash flow of the preferred assumptions in the LTFP (unindexed dollars).
- Rundle UPark renewals are planned to be brought forward to ensure its structural integrity. The timing of this will be subject to Council decision on the future use of the site, as well as ongoing structural reviews.

Significant Renewals (un-indexed)	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total 10 years
Adelaide Bridge				30,000	30,000						60,000
Torren's Weir					20,000	20,000					40,000
Rundle UPark						7,500	7,500	-	-		15,000
<b>Total Expenditure on Significant Renewals</b>	-	-	-	30,000	50,000	27,500	7,500	-	-	-	115,000
Assumed External Grant Funding				(15,000)	(15,000)						(30,000)
<b>Net Expenditure on Significant Renewals</b>	-	-	-	15,000	35,000	27,500	7,500	-	-	-	85,000



# New and Upgraded Assets

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**

# New and Upgraded Assets

Capital Expenditure: New and Upgraded Assets	2024-25 Budget	2025-26 Plan	2026-27 Plan	2027-28 Plan	2028-29 Plan	2029-30 Plan	2030-31 Plan	2031-32 Plan	2032-33 Plan	2033-34 Plan	Total 10 years
Central Market Arcade Redevelopment	15,918	8,778	-	-	-	-	-	-	-	-	24,696
Hindley Street Upgrade	4,980	9,240	-	-	-	-	-	-	-	-	14,220
Gouger Street Upgrade	1,250	4,000	9,250	-	-	-	-	-	-	-	14,500
O'Connell Street Upgrade	1,000	1,500	1,000	11,450	-	-	-	-	-	-	14,950
Melbourne Street Upgrade	100	1,400	1,000	4,000	-	-	-	-	-	-	6,500
Hutt Street Upgrade	1,250	5,000	6,200	-	-	-	-	-	-	-	12,450
Brown Hill Keswick Creek	320	320	320	320	320	320	320	320	320	320	3,200
Aquatic Centre Community Playing Field		6,157	-	-	-	-	-	-	-	-	6,157
218-232 Flinders Street		500	500	-	-	-	-	-	-	-	1,000
Public Realm Greening Program	1,700	-	-	-	-	-	-	-	-	-	1,700
Charles Street	5,925	-	-	-	-	-	-	-	-	-	5,925
Upgrade to Park Lands Buildings (1.5% Rates Revenue)	1,763	2,161	2,257	2,337	2,418	2,498	2,580	2,668	2,763	2,860	24,305
Other ^	22,604	-	-	-	-	-	-	-	-	-	22,604
Assumed forward Commitment		-	-	-	15,000	15,000	15,000	15,000	15,000	15,000	90,000
<b>Total Capital Expenditure: New and Upgraded Assets</b>	<b>56,809</b>	<b>39,055</b>	<b>20,527</b>	<b>18,107</b>	<b>17,738</b>	<b>17,818</b>	<b>17,900</b>	<b>17,988</b>	<b>18,083</b>	<b>18,180</b>	<b>242,206</b>
Confirmed External Funding	6,026	-	-	-	-	-	-	-	-	-	6,026
<b>Net Capital Contribution</b>	<b>50,783</b>	<b>39,055</b>	<b>20,527</b>	<b>18,107</b>	<b>17,738</b>	<b>17,818</b>	<b>17,900</b>	<b>17,988</b>	<b>18,083</b>	<b>18,180</b>	<b>236,180</b>

^ one-off funding for New and Upgraded Assets in 2024/25

# New & Upgraded Asset assumptions

FEEDBACK

<p>Current State of Play</p>	<ul style="list-style-type: none"> <li>• \$67.4m for existing commitments</li> <li>• \$62.62m committed investment for Mainstreets, for next 4 years</li> <li>• Assumes \$24.3m for upgrades to Park Lands buildings (1.5% rates)</li> <li>• Assumes \$90m (\$15m pa) investment for balance of LTFP</li> </ul>
<p>Options</p>	<ol style="list-style-type: none"> <li>1. Maintain current approach</li> <li>2. Prioritise current commitments</li> <li>3. Adjust program in outer years to manage level of borrowings</li> <li>4. Increase operating revenue to offset need for borrowings</li> <li>5. Revise Prudential Borrowing Limits</li> </ol>
<p><b>Preferred Assumption for LTFP</b></p>	<ol style="list-style-type: none"> <li><b>1. Maintain current commitments (including Mainstreets &amp; Park Lands buildings)</b></li> <li><b>2. Adjust program in outer years to fit within current Prudential Borrowings Limits</b> (after considering all other LTFP components)</li> <li><b>3. Assumed allowance subject to Business Cases</b></li> </ol>
<p>Why</p>	<ul style="list-style-type: none"> <li>• Delivers on Council’s commitments to community</li> <li>• Park Lands buildings are funded from Rates &amp; do not impact borrowings</li> <li>• Outer years program has no formal commitments in place &amp; can be adjusted</li> </ul>
<p>Implications</p>	<ul style="list-style-type: none"> <li>• Unfunded requirements from adopted strategies</li> </ul>

# Prudential Limits

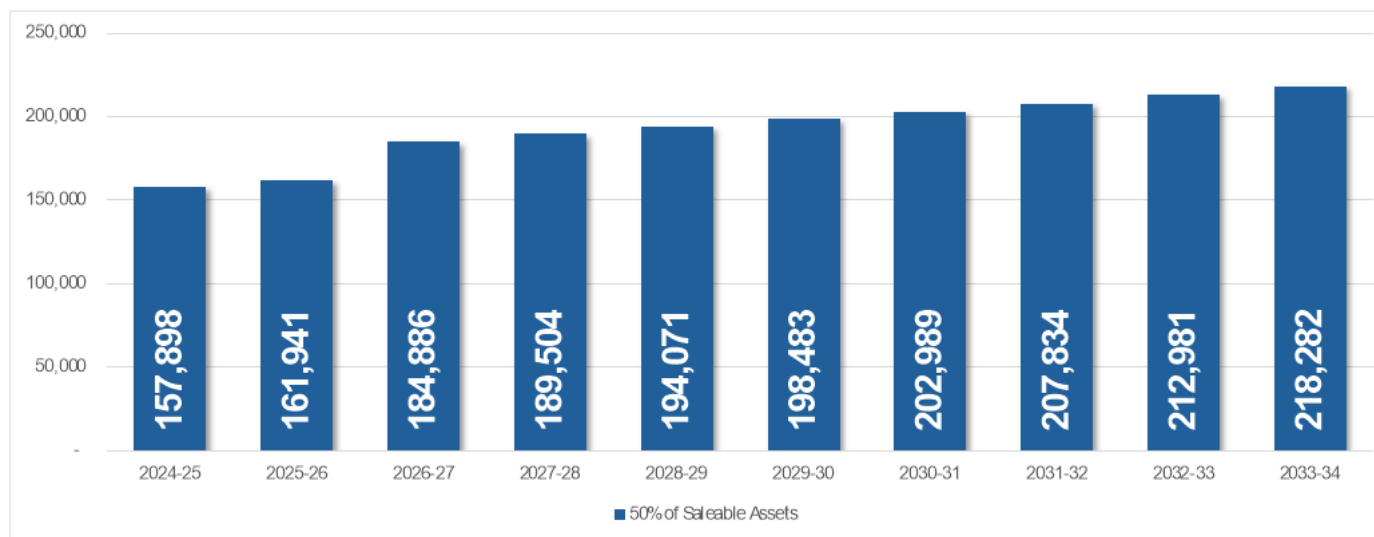
The maximum level of debt is prescribed by way of **prudential limits**. The upper limit is determined through financial indicators. When borrowing, Council will consider the following financial indicators:

Indicator	Asset Test Ratio	Interest Expense Ratio	Leverage Test Ratio
<b>Calculation</b>	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)
<b>Target</b>	Maximum 50%	Maximum 10%	Maximum 1.5 years
<b>Explanation</b>	<p>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.</p> <p>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</p>	<p>This ratio measures the affordability of Council's debt.</p> <p>The ratio indicates the percentage of rates revenue attributed to servicing the debt on an annual basis.</p>	<p>Similar to a debt-to-income ratio (DTI), it compares the amount of debt to overall income.</p> <p>The Ratio indicates the time it would take to repay borrowings through council's controllable revenue source, general rates revenue.</p>

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 Borrowing Limits

- The Prudential Borrowing Limit adjusts on an annual basis through the calculation of 3 indicators as per the current Treasury Policy:
  - Asset Test Ratio
  - Interest Expense Ratio
  - Leverage Test Ratio
- The limit is set based on the lowest figure derived from the above calculations
- Currently, the Asset Test Ratio is the calculation setting the upper limit



# Next Steps

- Further workshop on lever settings and revenue assumptions
- Develop LTFP based on feedback from Council Members
- Present preliminary LTFP to CFG (17 September 2024)
- Seek ARC feedback during the consultation period

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on the current prudential borrowing limits?

What are ARC Members' views...

on preferred application of funding levers in the LTFP?

What are ARC Members' views...

on the assumptions in relation to Significant Renewals?

What are ARC Members' views...

on the level of investment in New and Upgraded Assets?



# What is the LTFP?

- 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

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

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

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...

- 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

- 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



# Levers and Level of Influence

- Full discretion on all levers in the long term
- Renewal program based on evidence – difficult to change in short term but can change service levels in longer term
- Asset upgrades can be deferred (subject to need)
- Borrowings result from decisions relating to new capital spend

	<b>Lever</b>
<b>Short Term</b>	<ul style="list-style-type: none"> <li>• Asset Renewal Funding Ratio Different ARFRs by Asset Class</li> <li>• Alter rate revenue</li> <li>• Borrowing settings</li> </ul>
<b>Medium Term</b>	<ul style="list-style-type: none"> <li>• Renewal service level settings</li> <li>• Review asset upgrades</li> <li>• Borrowing settings</li> </ul>
<b>Long Term</b>	<ul style="list-style-type: none"> <li>• Review new assets investment</li> <li>• Review major projects</li> <li>• Borrowing settings</li> </ul>

# Borrowings

- 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

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...

- 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