

CEO SUSTAINABILITY REPORT

2025/26 TO 2034/35

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Background

The *Local Government Act 1999* (SA) (Act) requires the Council's Chief Executive Officer to prepare a report on the Council's long term financial performance and position as soon as practicable after adopting the council's annual business plan for a particular year, taking into account the provisions of Council's Business Plan and Strategic Management Plans as part of a review of its long-term financial plan.

This report on Financial Sustainability fulfils the legislative requirement.

What do we mean by sustainability?

In general terms sustainability means that the Council can continue current practices, and financial sustainability therefore addresses whether Council can sustain its current financial or economic practices now and in the future. Or put more simply:

Can we afford it in the long term?

While there is no legislated definition of financial sustainability, the following statement is the generally accepted definition by the South Australian and Australian Local Government Associations:

"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."

In Local Government, financial sustainability challenges pose the question:

Can we continue the sort of revenue and expenditure patterns of recent years while maintaining the levels of service expected by the community?

What does financial sustainability mean for Local Government?

Neglecting financial sustainability can erode a council's capacity to ensure sufficient financial resources to absorb cyclical economic factors, social trends and financial shocks. Funding decisions therefore play an important role in providing Council with the capacity to meet financial obligations and commitments in the medium and long term.

Financial sustainability is also central to the important issue of **intergenerational equity**. Intergenerational equity (or fairness) means costs associated with expenditure are spread over time reflecting the distribution of the benefits generated. In effect, the current generation is able to "pay its way" by funding the services and infrastructure they use, and that investments in new infrastructure and assets funded through borrowings will not excessively burden future generations.

Intergenerational equity requires financial sustainability through stability of revenue and costs, revenues aligned with benefits over time and a "balanced" operating result.

Financial principles and finance strategy

These principles are foundational to a financial management approach that supports the achievement of long term financial sustainability:

- Transparency in decision making.
- Adopting an approach to rates, fees and charges that is fair and equitable.
- Reflecting the community's service delivery needs.
- Continuing delivery of at least a minimum of the current suite of services and asset maintenance, indexed in line with Consumer Price Index (CPI).
- Adopting fees and charges that reflect the cost of services provided.
- Maintaining the current rating system.
- Maintaining an operating surplus.
- Capitalising on external funding, fast-tracking projects that attract such funding, and recognising the potential need for increased borrowings in order to respond to external funding opportunities which require matched funding.
- Considering new and different revenue streams and the approach to Council's commercial businesses to reduce reliance on existing revenue sources.
- Adjusting 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.
- Funding new or enhanced services, assets or maintenance that require an increase in operating costs from the adjustment of priorities, rate or other revenues, and/or through savings – *not* from borrowings.
- Basing capital renewal expenditure on asset management plans and prioritised based on audit condition and risk.
- Provisioning a future fund from proceeds of underperforming asset divestment, to invest in future revenue-generating assets.
- Considering the disposal, purchase and /or repurposing of property assets to unlock the potential and future prosperity of the City, without incurring a financial loss.
- Using borrowings to fund new and upgrade projects (including major projects) and *not* to fund operations, expenses or renewal projects
- Using short term borrowings to fund the Asset Renewal Repair fund to ensure the increased spending required through recently revised Asset Management Plans is spread over a longer period, balancing community expectation and its capacity to pay, repaid through temporary sustainable rate rises over a fixed period.
- Generating a cash flow from operations ratio greater than 100%, whereby adequate cash is generated from operations to fund asset replacement over time, and to service principal and interest from associated new debt associated with new and upgraded assets.

How do we monitor and communicate financial sustainability?

The Council will operate in accordance with a sustainable Long Term Financial Plan (LTFP).

A suite of key financial indicators (KFIs) is used to measure Council's financial performance, to guide decision making on major projects and significant components within the LTFP, and to ensure continued financial sustainability.

Three nationally-recognised financial sustainability indicators have been adopted in principle by Local Government across Australia and are employed by the City of Adelaide. These are:

- The Operating Surplus Ratio
- The Net Financial Liabilities Ratio
- The Asset Renewal Funding Ratio.

Council also considers an additional four indicators to guide its ability to borrow, in line with its Prudential Borrowing Limit:

- Asset Test Ratio
- Interest Expense Ratio
- Leverage Test Ratio
- Cashflow from Operations Ratio.

These KFIs are explained in the reporting section below (p.8 – 16).

In addition, the City of Adelaide (CoA) has endorsed various Financial Principles which operate in conjunction with the Long Term Financial Plan to promote and underpin sustainability.

What does legislation require?

The *Local Government Act 1999* (SA) (Act) outlines a number of requirements that councils must meet.

Section 122(1) of the Act requires councils to have strategic management plans and to report on those. These include, but are not limited to, a long-term financial plan and infrastructure and asset management plans, as a part of their suite of strategic management plans.

Councils are also required to have an audit committee that provides input to any review of council's strategic management plans. The Audit Committee cannot include council staff or any of Council's auditors, and may include persons who are not members of Council (s126 of the Act), with between 3 and 5 members. The Terms of Reference for the City of Adelaide audit committee states that membership will consist of four Independent Members (who are not members of any council) and one Council Member. In addition, the Lord Mayor is considered an ex-officio member to the Committee.

The Act requires that long-term financial plans are reviewed on an annual basis (s122(4)(a)). As a part of this review a council CEO must prepare a report on the council's financial sustainability (s122(4a)(a) of the Act).

The Act also provides for a cycle of planning which embeds financial sustainability into the development of the business plan and budget.

Regulations associated with the Act require councils to disclose, in a consistent manner, actual and projected performance with respect to an operating surplus ratio, an asset renewal funding ratio (ARFR) and a net financial liabilities ratio in their annual budget and long term financial plan.

Financial Sustainability Performance

This section summarises Council's financial sustainability position. It sets out each of the seven Key Financial Indicators, along with the Council's performance against each.

For each of the indicator there is:

- A brief description of the indicator
- Exactly what is being measured
- A Target for the indicator
- Council's result for the indicator (and a chart showing the previous year's projection, the current year's Budget figure and the Projected Long Term Financial Plan's figures for the next nine years)
- An analysis and summary explanation of the current and projected results.

Conclusion

The analysis indicates that the City of Adelaide is currently financially sustainable and can remain so for the forecast period covered by the 2025/26 to 2034/35 Long Term Financial Plan.

In all cases, Council remains within each relevant indicator except for the Cashflow from Operations ratio between 2030/31 – 2032/33, due to the outlay on significant renewals. The results highlight matters where Council decisions can impact future financial sustainability. Long term financial sustainability is therefore subject to ongoing decisions and discipline, particularly (but not limited to):

- Ensuring decisions are consistent with Council's adopted financial principles
- Continued growth in revenue, through both rates and commercial activities, at or above the rate of growth in expenses
- Commitment to investment in new and upgrade assets in line with prudential borrowing limits
- Use of the Future Fund for particular projects and initiatives.

Financial Sustainability Summary

Operating Surplus

This indicator represents the difference between day-to-day income and expenses for a period.

A council's long-term financial sustainability depends upon ensuring that, on average over time, its expenses are less than associated revenues. If a council is not generating an operating surplus in most periods then it is unlikely to be operating sustainably. The target for the City of Adelaide is to achieve a surplus of between \$2m and \$10m in any given year.

The chart below shows the impacts of key assumptions within the LTFP.

In particular assumptions relating to:

- preparedness for the Adelaide Central Market Authority expansion result in a reduced operating position in 2026/27
- continuing to invest in new and upgraded projects (to meet the emerging needs of the community) results in a higher level of assets, and related borrowings.

As such, increased depreciation (from a higher asset base) and interest costs (from higher borrowings) see expenses growing at a faster rate than revenue (which is largely based on CPI increases).

Underpinning current and future sustainability, Council projects operating surpluses over the life of the LTFP.



Chart 1: Operating Position

Operating Surplus Ratio

Definition: Operating surplus as a percentage of operating revenue

What is being measured: This indicator represents the percentage by which total revenue varies from day to day operating expenses. Financial sustainability is indicated where a council consistently achieves operating surpluses and has soundly based projections showing it can continue to do so in the future, having regard to asset management and the service level needs of its community.

Target: The Financial Sustainability Information Paper (FSIP) No. 9 recommends the target is to achieve an average operating surplus ratio between 0% and 10% over any five-year period. However, as a Capital City Council, the City of Adelaide has significant responsibilities in improving its public realm and considers that an average operating surplus ratio between 0% and 20%, over any five-year period, is a more appropriate target. A result in excess of this may indicate that Council is setting rates and/or other fees and charges at levels well in excess of expenses and this has negative intergenerational equity implications.

In addition, operating deficits are not sustainable or equitable in the long term as they result in services consumed by current ratepayers being paid for by future ratepayers. A fair and equitable tax system is one in which taxes paid by each generation is in proportion to the benefits each generation receives.

Explanation of LTFP Projected Results: The ratio sits within target ranges over the life of the LTFP, reflecting sustainable surpluses based on as increase to base rating revenue to fund renewals, followed by CPI increases thereafter. The underlying structural budget is sustainable over the life of the LTFP.

In particular, this LTFP sees much smoother, and more conservative and achievable outcomes whereby external grant funding associated with significant renewals has been removed based on the latest investigations. Accounting standard dictate that this capital-related income must be recognised as operating revenue, distorting the operating position in the periods in which they are received.

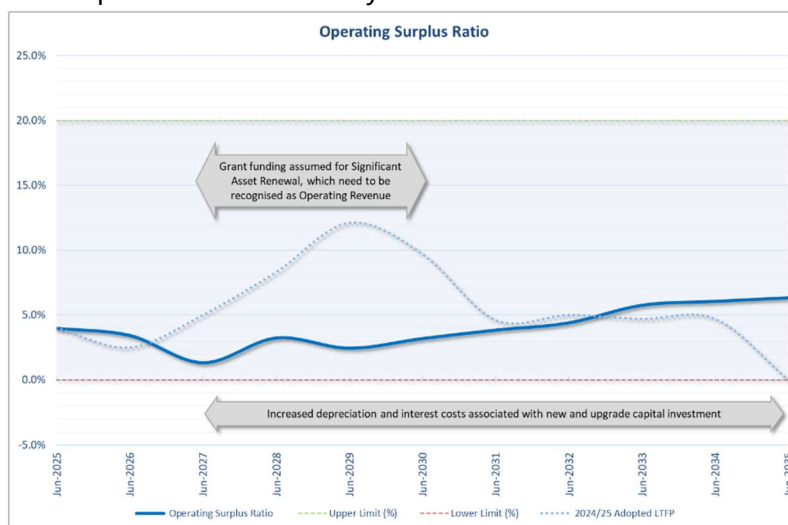


Chart 2: Operating Surplus Ratio

Net Financial Liabilities

This indicator represents the money owed to others less money held, invested or owed to Council.

A council's indebtedness should be managed to ensure its liabilities and associated costs can be met without the prospect of disruptive service cuts and/or excessive rate increases (ie without impinging on financial sustainability). There is in essence no right or wrong target level for net financial liabilities (defined as total liabilities less financial assets) as this depends on infrastructure plans. The ideal target is that net financial liabilities are no greater than annual operating revenue and not less than zero.

Net Financial Liabilities Ratio

Definition: Financial liabilities as a percentage of operating income

What is being measured: This indicator represents the significance of the net amount owed compared with operating revenue. It measures the extent to which Council is managing its debt and highlights that borrowings are often an effective means of financial sustainability, rather than trying to fund all assets from operating income. A steady ratio means Council is balancing the need to borrow against their affordability of debt. An excessive ratio means Council is borrowing beyond its means and cannot generate the income required to service assets and operations.

Target: The LGA recommends that the target for Net Financial Liabilities should be greater than zero (and less than 100%, that is, the amount owed is equal to or less than total annual income). A target below zero indicates that Council places a higher priority on accumulated financial assets than applying funds generated from ratepayers to the provision of services and/or infrastructure renewal. This could leave a council open to accusations that it is overcharging ratepayers relative to its funding needs.

The more conservative target set by City of Adelaide is that liabilities as a percentage of total operating revenue will not exceed 80%.

Explanation of LTFP Projected Results: City of Adelaide's net financial liabilities are within the prescribed target for the life of the plan. Lower ratios in the short term highlight low levels of debt, steadily increasing over the life of the LTFP reflecting increased borrowings to deliver on Council's commitment to invest in new and upgraded assets and fund the significant renewals.

Note that Council's new and upgrade capital program includes an allocation which is not yet committed and can be adjusted within existing prudential limits to respond to emerging needs.

Any increase in contributions towards the significant renewals will allow Council to either maintain a lower level of debt and/or invest more in new and upgrade projects.

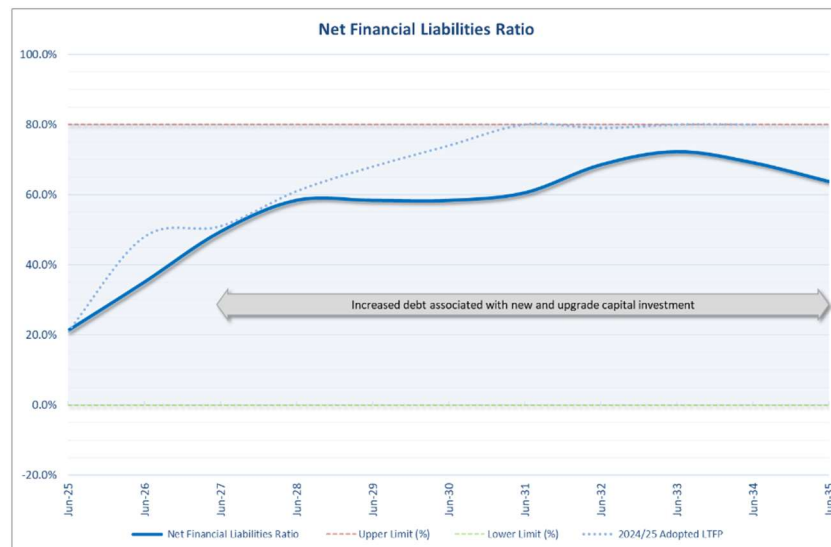


Chart 3: Net Financial Liabilities Ratio

An improvement in current borrowing levels and reduced expenditure expected for significant renewals sees an improved long-term position, significantly below the 80% target.

The level of borrowings is projected to be within acceptable prudential limits, assisting Council to maintain long-term sustainability. Typical prudential limits set by financial institutions as part of covenants associated with loans are around 80% of asset values. Council has therefore set a conservative limit of 50% of saleable property assets (see below), providing additional comfort in excess of generally accepted banking norms.

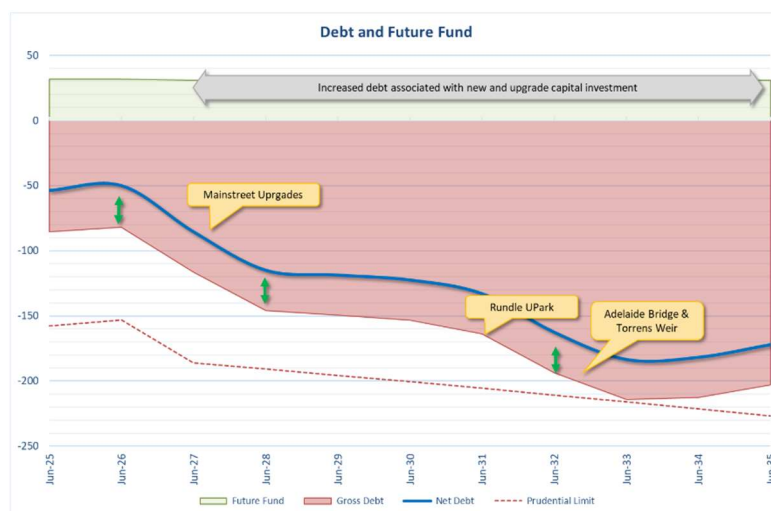


Chart 4: Projected Debt and the Future Fund

It should be noted that the Council has created a Future Fund that 'ring fences' proceeds from the sale of surplus or underperforming assets, to reinvest into revenue generating assets. The funds generated from asset sales effectively offset the level of borrowings Council would otherwise incur had the assets not been disposed. Accordingly, Council pays less interest over time, incurring interest on a lower 'offset' balance of borrowings.

Note that, were Council to fully draw on the Future Fund, its level of borrowing would still fall within prudential limits.

Asset Renewal Funding Ratio (ARFR)

Definition: Expenditure on asset renewals as a percentage of forecast expenditure required as per the asset management plans.

What is being measured: This indicator expresses expenditure on asset renewals as a percentage of the projected funding required. 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 Asset Management Plans.

Target: A ratio lower than 100% suggests that Council is not maintaining assets and infrastructure in order to optimise asset lives. A ratio higher than 100% suggests that Council is replacing assets earlier than needed or at a level in excess of that set in the asset management plans. Adoption of a target ratio between 90% and 110%, is in line with the *Local Government Act 1999* (SA).

Explanation of LTFP Projected Results: It is assumed that over the life of the Long Term Financial Plan, asset renewals will be funded in line with the Infrastructure & Asset Management Plans. In the previous term, Council resolved to set the ARFR (previously the Asset Sustainability Ratio) at 90%. This term of Council recognises the potential impact of this decision and the possible under-investment in assets and infrastructure and, as such, the LTFP assumes transitioning the ARFR from 90% to 100% over eight years. Averages for asset renewal reflect an even performance over the life of the plan. The ratio from 2031/32 onwards represents the transition from 90% to 100%. This ratio should be continually monitored as asset management plans are reviewed and updated.

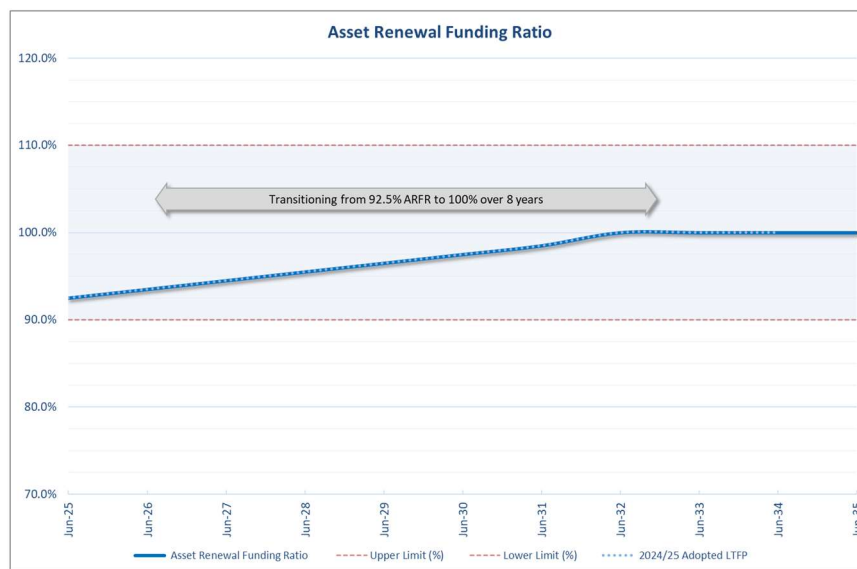


Chart 5: Asset Renewal Funding Ratio

The ARFR trajectory in this LTFP is consistent with the previously adopted LTFP.

Prudential Limits (Borrowings)

Definition

- Asset Test Ratio: Borrowings as a percentage of total saleable property assets
- Interest Expense Ratio: Annual interest expense relative to General Rates Revenue (less Landscape Levy)
- Leverage Test Ratio: Total borrowings relative to General Rates Revenue (less Landscape Levy) expressed as the number of years of General Rates Revenue required to repay borrowings

What is being measured: The maximum level of debt is prescribed by Council by way of prudential limits. While Council does not place a monetary limit on the level of borrowings: an upper limit is determined through its financial indicators. When borrowing, Council will consider these indicators in terms of total borrowings, and the ability to service the interest incurred and debt repayments.

Target: The Treasury Policy reviewed in 2025 ensures Council's ability to manage cash and borrowings in accordance with prescribed limits.

The Prudential limits set by the Treasury Policy are:

- Asset Test Ratio: Maximum of 50%
- Interest Expense Ratio: Maximum of 10%
- Leverage Test Ratio: Maximum 1.5 Years

Prudential limits are breached when one of the ratios fall outside the targets stipulated in the policy. The breach must be reported with remediation actions to the CEO immediately.

Explanation of LTFP Projected Results: City of Adelaide's borrowings are within target levels across the period of the Long Term Financial Plan.

The Asset Test Ratio shows that Council has capacity within its total saleable assets to be able to meet the repayment of borrowings should the assets need to be sold in order to repay debt.

The increasing ratio illustrated below reflects the cumulative impact of utilising debt to deliver on Council's commitment to invest in the City, in addition to debt required to fund significant renewals (that is, the Torrens Weir, Adelaide Bridge and Rundle UPark). This has limited the ability to deliver new and upgraded assets from 2031/32 and still remain within the target ratio. The sale and development of property assets will impact prudential limits, and hence the Asset Test Ratio, in periods where transactions occur.

Note however, an improvement in current borrowing levels and reduced expenditure expected for the significant renewals sees an improved outlook compared to the previously adopted LTFP, notably 10% below the prudential limit of 50%, thereby creating a financial cushion in mid to long-term, addressing one of the concerns in the ESCOSA review.

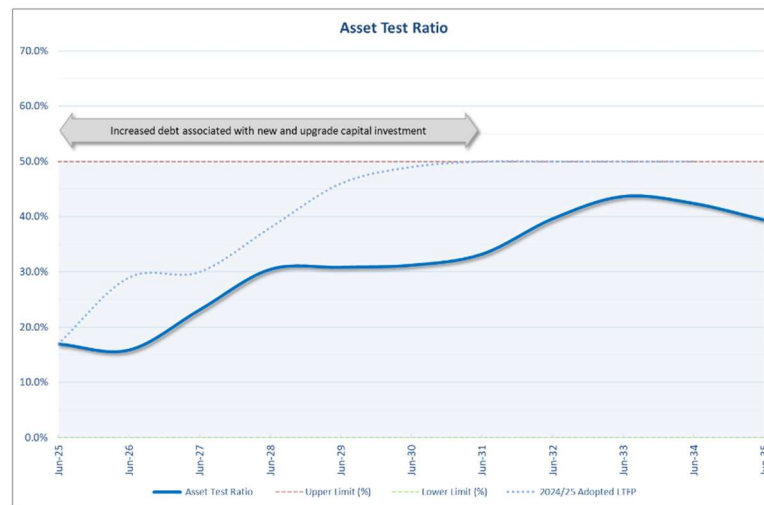


Chart 6: Asset Test Ratio

Similarly, the steady increase in borrowings sees the Interest Expense Ratio for the life of the plan increasing, albeit sitting comfortably within the target range, and an improvement compared to the previous LTFP, beginning to reduce from 2032/33.

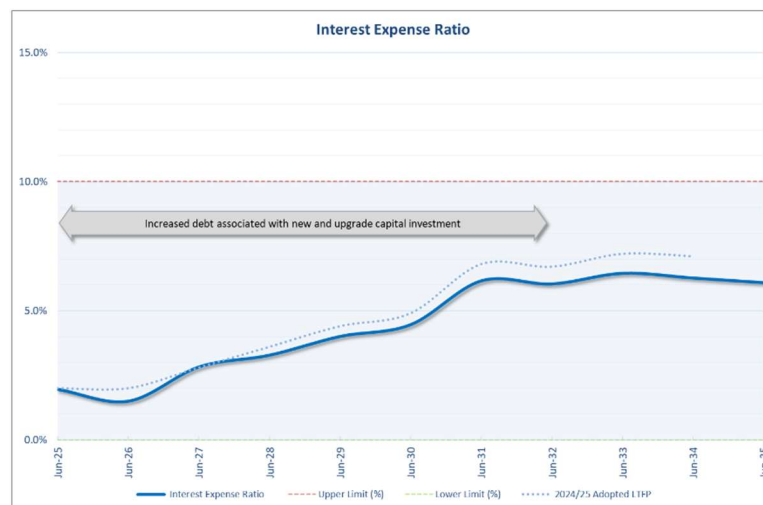


Chart 7: Interest Expense Ratio

The Leverage Test Ratio indicates the time it would take to repay borrowings from general rates revenue. The plan supports Council's ability to repay the debt if called upon from less than 1½ year's rates revenue in any year of the plan, and tracks in line with the other two prudential borrowing indicators.

Again, the outlook is much improved compared to the previous LTFP.

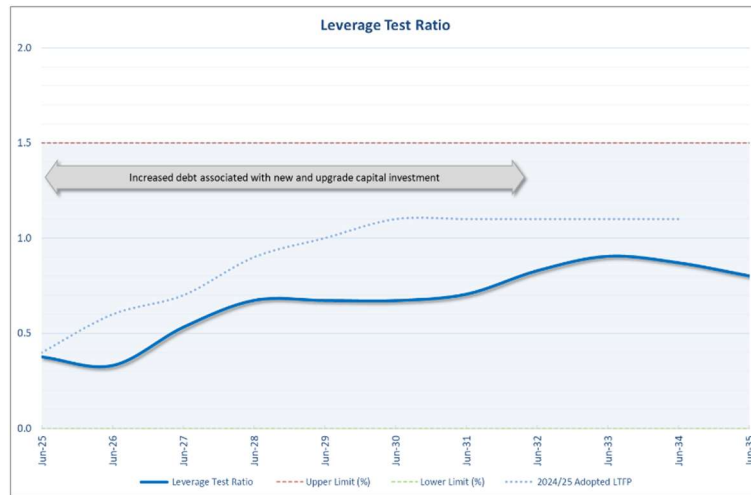


Chart 8: Leverage Test Ratio

Cashflow from Operations Ratio

Definition: Operating Income as a percentage of Operating Expenditure plus expenditure on renewal/replacement of assets.

What is being measured: This ratio measures Cash Flow from Operations as a percentage of forecast expenditure in the asset management plans, in addition to expenditure on delivering services.

This indicator shows whether Council is generating adequate cash from its operations to cover the replacement of assets over time.

A lower ratio indicates that Council is not generating enough cash from operations to cover asset replacement (less than 100%). As a result, Council will need to fund the replacement of assets from unsustainable sources of income resulting in increased levels of borrowings over time.

Target: A result greater than 100% suggests Council's operations will generate enough cashflow to support the funding of asset replacement over time.

Explanation of LTFP Projected Results: Most years of the LTFP project a positive result. Years 6 to 8 of the plan reflect the significant renewals required in these years.

This ratio highlights the risk in Council's ability to fully fund the larger renewals that are identified in the LTFP. This is not to suggest deficiency in renewal, but rather highlights the opportunity in advance to seek alternative funding sources such as State or Federal grants to assist with the funding of significant asset renewal projects which benefit the wider State and Adelaide metropolitan area.

The underlying structural cashflow (adjusting for expenditure on significant renewals) delivers an average projection between 100% and 105%, suggesting Council's cashflow is sustainable.

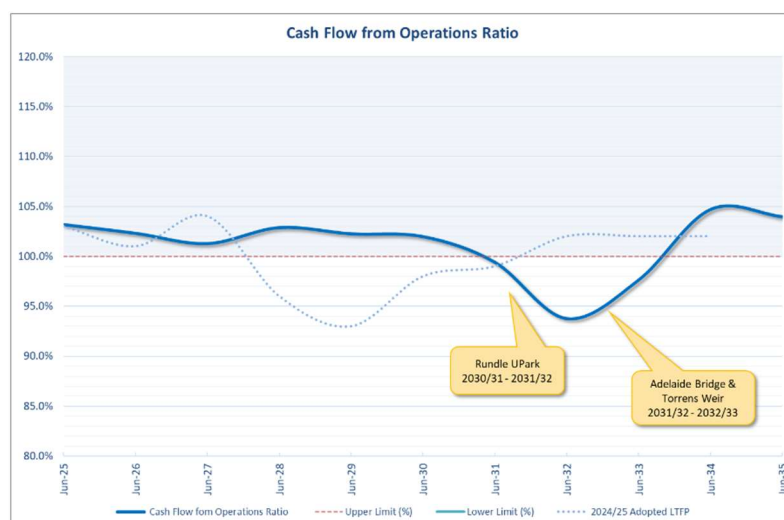


Chart 9: Cashflow from Operations Ratio

Notably, the latest investigations on the Weir and Bridge suggest a lower level of expenditure and at a later date. Notwithstanding the removal of grant funding associated with funding these assets, the impact of reduced outlay sees a similar ration minimum maintain, positively at a later date.