

Review of the Long Term Financial Plan

Thursday, May 12 2022
Audit and Risk Committee

Strategic Alignment - Enabling Priorities

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Public

Approving Officer:
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EXECUTIVE SUMMARY

The draft Long Term Financial Plan (LTFP) was considered and approved by Council as a part of the 2022/23 Annual Business Plan and Budget on 10 May 2022 to be released for public consultation. Consultation commences on 13 May and will conclude on 6 June 2022 for the draft Business Plan and Budget, with the draft LTFP provided as context for the consultation purposes.

The purpose of this report is to provide a detailed review of the LTFP given its relevance to the purpose of the Audit and Risk Committee terms of reference. The consideration of the LTFP by the Audit and Risk Committee is being held during the public consultation and forms part of the consultation process. Any feedback received from the Audit and Risk Committee will be incorporated to the consultation feedback provided to Council at its ordinary meeting in June and incorporated in the final version adopted by Council in late June.

Further, this report will also review the financial indicators and ratios as well as the Chief Executive Officer (CEO) statement on financial sustainability as required by section 5 of the *Local Government (Financial Management) Regulations 2011* (the Regulations).

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the draft Long Term Financial Plan which includes the financial indicators and ration analysis, and CEO Statement on Sustainability, as per Attachment A to Item 6.4 on the Agenda for the meeting of the Audit and Risk Committee held on 12 May 2022.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities The Long Term Financial Plan (LTFP) is a key planning document in determining Council's financial sustainability to be able to support ongoing service delivery for the community.
Policy	The LTFP is developed in accordance with Council's financial policies.
Consultation	The LTFP has been provided as context to the consultation for the 2022/23 Annual Business Plan and Budget. The LTFP requires annual review under the Local Government Reform, however consultation on the document itself under Councils Public Communication and Consultation Policy is only required if substantial changes are made. As a result, separation consultation has not been undertaken. Consideration and feedback from the Audit and Risk Committee will be incorporated into the consultation summary provided to Council at its June meeting.
Resource	Not as a result of this report
Risk / Legal / Legislative	Council's draft LTFP is developed in accordance with section 122 of the <i>Local Government Act 1999 (SA)</i> (the Act), and section 5 of the <i>Local Government (Financial Management) Regulations 2011</i> (the Regulations).
Opportunities	Not as a result of this report
21/22 Budget Allocation	Not as a result of this report
Proposed 22/23 Budget Allocation	Not as a result of this report
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
21/22 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. The Audit Committee was presented with the draft budget on 8 April 2022. This budget presented a \$4.8M deficit operating position.
2. Since then, administration have included a budget offset item in the budget to present a balanced budget of \$86k. This is to ensure that the impact of the depreciation is offset.
3. The \$4.8m offset will also be addressed through other means, such as:
 - 3.1. Verification of depreciation to Asset Management Plans
 - 3.2. Recovering revenue from existing commercial activities impacted by COVID-19
 - 3.3. Establishing revenue opportunities through new commercial opportunities and expansion of existing revenue streams.
 - 3.4. Implementation of procurement efficiencies to deliver cost efficiencies and sustainable outcomes.
4. The draft Business Plan and budget and draft LTFP (the Plans) were considered by Council on 10 May 2022 and approved for release for public consultation.
5. Any feedback received from the Audit and Risk Committee will be incorporated into the final version of the plans.
6. Given the relevance of the LTFP to the function of the Audit and Risk Committee and the Financial Management Regulations requirements, this report provides a more detailed review of the LTFP and the associated financial indicators and ratios.
7. The CEO statement on financial sustainability as required by the regulations has also been incorporated into the LTFP document for the Audit and Risk Committee to consider and provide feedback on.

Long Term Financial Plan

8. In 2021/22, Council produced a LTFP not only as a 10 year set of financial statements, but as a full document complete with:
 - 8.1. Statement on Financial Sustainability
 - 8.2. Review of key assumptions
 - 8.3. Analysis of Risk and Opportunities
 - 8.4. Review of Financial Indicators
 - 8.5. 10 Year Projected Financial Statements
9. The initiative to create this stand-alone document has meant that Council is prepared for the changes to Section 122 of the *Local Government Act (SA) 1999 (LG Act)* as amended by the *Statutes Amendment (Local Government Review) Act 2021*. Some of these amendments are expected to commence in June 2023 and as such will be included in the next review of the LTFP.
10. The amendments to the LG Act require the following items in relation to the preparation of the LTFP:
 - 10.1. Annual review
 - 10.2. Details regarding assumptions
 - 10.3. Ability for the Minister to request further information regarding sustainability.
11. The current format of the LTFP meets each of these requirements.
12. As a part of the 2022/23 Business Plan and Budget process this document has continued to be reviewed and updated with some additions for further analysis regarding Council's financial sustainability. These additions specifically include:
 - 12.1. Sensitivity Analysis on key indices
 - 12.2. Scenario Analysis on significant risks and opportunities
 - 12.3. Greater connection to the Business Plan
13. Further to this, detail has been provided regarding the relationship to the Asset Management Plans and assumptions for renewals, particularly for the Adelaide Aquatic Centre.

14. The introduction of the Future Fund and Investment Policy also required further detail in the LTFP with regards to the nature of this reserve. This was a specific request of the Audit and Risk Committee and has been incorporated into the LTFP document.

Financial Indicators and Ratios

15. The LTFP Includes a section on the full suite of financial indicators including the three core ratios as required by the LGA as well as additional ratios as required by Council's financial policies. These ratios and associated target ranges were confirmed as a part of the Treasury Policy review in 2021.
16. The main amendment to this section is to include the five and ten year averages for each indicator. Inclusion of averages is to promote and support the definition of sustainability in that it does not refer to any one year in isolation. Sustainability is focused on the achievement of these ratios in more years than less over a long term period. As such, review of indicators as averages over the life of the LTFP supports the delivery of sustainability.

Financial Sustainability and Strategy

17. Increasing scrutiny of councils' financial management is evident in the changes required by the Local Government Reform.
18. The introduction of the role of the Essential Services Commission (ESCOSA) in the review of the LTFP is further testament to the pressure on councils to prove their commitment to financial sustainability.
19. The CEO Statement on Financial Sustainability as required by the Regulations is included in the LTFP document and feedback is sought from the Audit and Risk Committee.
20. The changes to the LG Act introduce the ability for the Minister to request further information of the Chief Executive Officer regarding financial sustainability and as such it is important that this document captures this position accurately.
21. To further improve the positioning of Council's financial management principles, a strategy document capturing such principles is underway and will be brought to the Audit and Risk Committee for consideration at an upcoming meeting.

ATTACHMENTS

Attachment A – Long Term Financial Plan (2021-2022 to 2030-2031)

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