CITY OF ADELAIDE

2026

CHIEF EXECUTIVE OFFICER'S

FINANCIAL SUSTAINABILITY REPORT

Purpose

This report has been prepared in accordance with section 122(4a)(a) of the *Local Government Act 1999* (SA) to provide the Chief Executive Officer's assessment of the sustainability of the City of Adelaide's long-term financial performance and position.

In forming this assessment, consideration has been given to the 2026/27 Annual Business Plan and Budget, the 2026/27 to 2035/36 Long Term Financial Plan, Council's Strategic Plan 2024–2028, the updated Asset Management Plans, Council's adopted financial principles and the key assumptions and risks underpinning these plans.

The Act requires Council to review its Long Term Financial Plan annually and, as part of that review, consider a report from the Chief Executive Officer on the sustainability of Council's long-term financial performance and position.

CEO's Assessment

Based on my review of the 2026/27 Annual Business Plan and Budget, the 2026/27 to 2035/36 Long Term Financial Plan and the updated Asset Management Plans, I am satisfied that Council is positioned to maintain long-term financial sustainability over the planned period, subject to the ongoing management of the risks and assumptions outlined in this report.

The Long Term Financial Plan demonstrates that Council has the capacity to continue delivering its current services, progressively fund the renewal of its infrastructure and community assets, and meet its debt-servicing obligations without disruptive reductions in services or unplanned increases in rates.

This assessment is dependent on Council continuing to:

- achieve sustainable operating results;
- maintain revenue growth that supports the cost of service delivery;
- progressively fund asset renewal requirements in accordance with the Asset Management Plans;
- manage borrowings within Council's adopted prudential limits;
- manage the timing, scope and cost of significant asset renewals;
- monitor and respond to changes in inflation, interest rates and construction costs; and
- review the Long Term Financial Plan annually using the latest financial, economic and asset information.

Council's financial position remains subject to uncertainty, particularly in relation to the cost and timing of major asset renewals, capital delivery capacity, asset valuations, economic conditions and the future performance of Council's revenue sources. These matters will require ongoing monitoring and disciplined decision-making.

Funding Service Delivery

Objective

To ensure Council can continue to provide the services relied upon by the community, both now and into the future.

Council's long-term financial sustainability is underpinned by its ability to generate sufficient operating revenue to fund ongoing services, programs, asset maintenance, depreciation and financing costs.

The 2026/27 to 2035/36 Long Term Financial Plan forecasts operating surpluses across the ten-year period. This indicates that Council's ongoing operating income is expected to be sufficient to meet the cost of delivering services and maintaining day-to-day operations.

The Operating Surplus Ratio is the primary measure used to assess this component of sustainability. A positive ratio indicates that operating revenue exceeds operating expenses and that the current cost of services is not being transferred to future ratepayers.

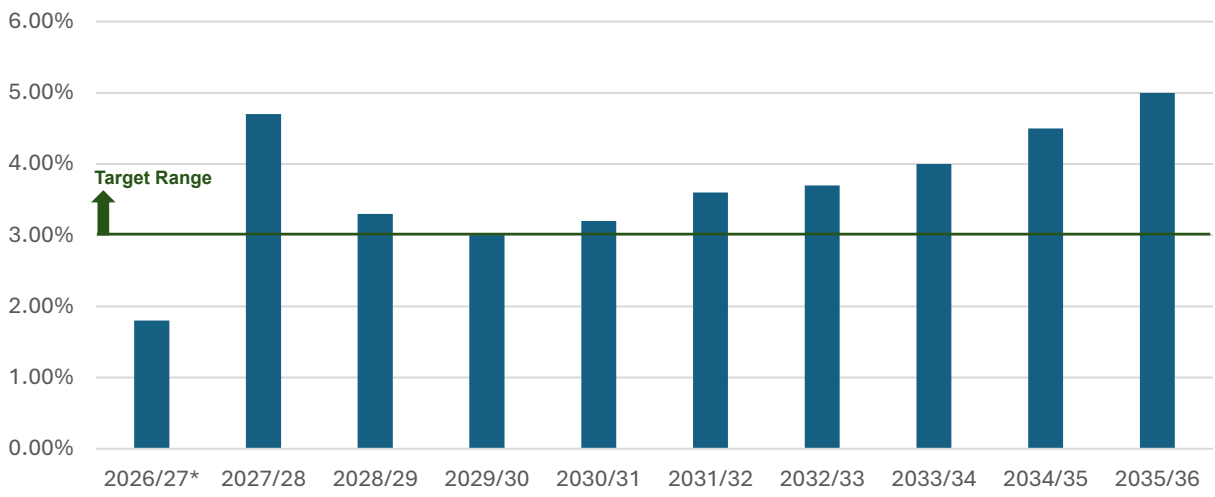
The Cash Flow from Operations Ratio provides an additional measure of Council's capacity to generate sufficient operating cash to fund services, asset replacement requirements and debt-servicing commitments. Periods of pressure on this ratio are expected when significant asset renewals are delivered. These movements are associated with the timing of major capital expenditure and do not, in isolation, indicate that Council's underlying operating position is unsustainable.

Council's capacity to maintain service delivery depends on revenue growth keeping pace with changes in operating costs. This is particularly relevant given Council's exposure to rates, property-related income, parking revenue and other fees and charges. Changes in economic activity, community behaviour, government policy or market conditions may affect these revenue sources.

How sustainability is measured

Council will monitor:

- the Operating Surplus Ratio;
- the Cash Flow from Operations Ratio;
- annual operating results against the Long Term Financial Plan;
- revenue and expenditure growth;
- the financial performance of material services and commercial activities; and
- quarterly budget performance and forecast adjustments.



Operating Surplus Ratio

** Council's new target range for the Operating Surplus Ratio was fixed after the adoption of the 2026/27 Budget*

CEO's assessment

The Long Term Financial Plan demonstrates that Council has the financial capacity to continue delivering its existing services over the ten-year period. This assessment assumes that Council maintains control over expenditure, regularly reviews service costs and service levels, and ensures that revenue growth remains sufficient to meet inflationary and other cost pressures.

Decisions to introduce new services or materially increase existing service levels should identify an ongoing and sustainable funding source. Borrowings should not be used to fund recurrent operating expenses.

Funding Asset Renewals

Objective

To maintain and renew Council's infrastructure and assets so that they remain safe, fit for purpose and capable of supporting current and future service delivery.

Council manages a significant and diverse asset portfolio through six Asset Management Plans covering: Transport, Urban Elements, Buildings, Park Lands and Open Space, Public Lighting and Electrical Infrastructure, and Water Infrastructure.

The Asset Management Plans have been reviewed and updated to reflect recent asset revaluations, audited asset data and the completion of the 2025/26 capital works program. This provides a current basis for estimating asset lifecycle costs, renewal requirements and future expenditure.

The Long Term Financial Plan forecasts approximately $849 million in asset renewal expenditure over the ten-year planning period. The Asset Renewal Funding Ratio is forecast to progressively increase to 100% by 2031/32, after which Council is expected to renew assets broadly at the rate identified as required in its Asset Management Plans.

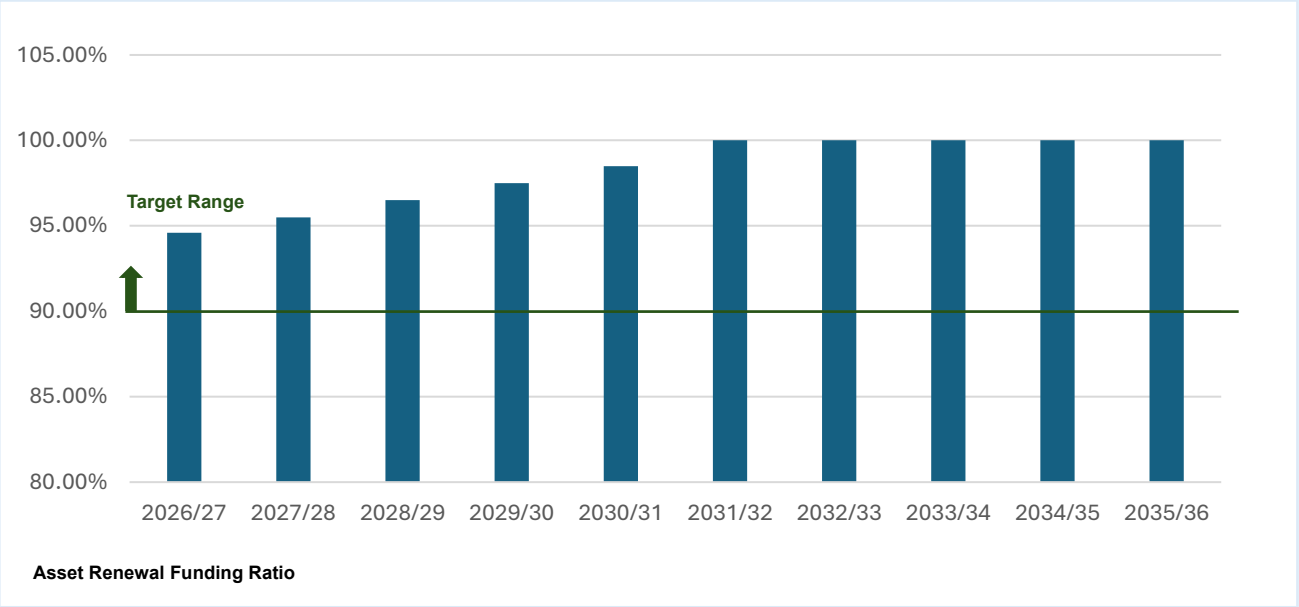
Significant renewals, including Adelaide Bridge, Torrens Weir and Rundle UPark, represent the most material asset-related risks within the Long Term Financial Plan. The scope, timing and cost of these works may change as condition assessments, technical investigations and design work progress.

The Long Term Financial Plan adopts a conservative position by assuming that Council will fund these significant renewals unless external contributions are secured. This ensures that Council's assessment of sustainability does not depend on uncertain funding.

How sustainability is measured

Council will monitor:

- the Asset Renewal Funding Ratio;
- actual renewal expenditure against the Asset Management Plans;
- changes in asset condition and useful lives;
- the outcomes of asset valuations and condition audits;
- the scope, timing and estimated cost of significant renewals; and
- Council's capacity to deliver the planned capital program.



CEO's assessment

Council's approach to asset renewal is sustainable, provided that the planned transition to a 100% Asset Renewal Funding Ratio is maintained and the Asset Management Plans continue to be regularly updated using reliable condition, valuation and cost information.

Careful management of the significant renewal program will be required. Material changes to the scope, cost or timing of Adelaide Bridge, Torrens Weir, Rundle UPark or other major assets should be incorporated into the Long Term Financial Plan as reliable information becomes available.

Council should also continue to assess whether the timing of its renewal program is deliverable within available market and organisational capacity. Deferral of necessary renewal expenditure can increase lifecycle costs and transfer an unreasonable financial burden to future ratepayers.

Servicing Debt and Managing Financial Risk

Objective

To ensure Council can meet its debt obligations and manage financial risk while preserving long-term financial flexibility.

Borrowings are an appropriate funding mechanism for long-lived assets that benefit current and future generations. Spreading the cost over the period in which the assets provide benefits supports intergenerational equity.

The Long Term Financial Plan forecasts increased borrowings to support asset investment and significant renewals. Despite this increase, borrowings remain within Council's adopted prudential limits throughout the ten-year planning period.

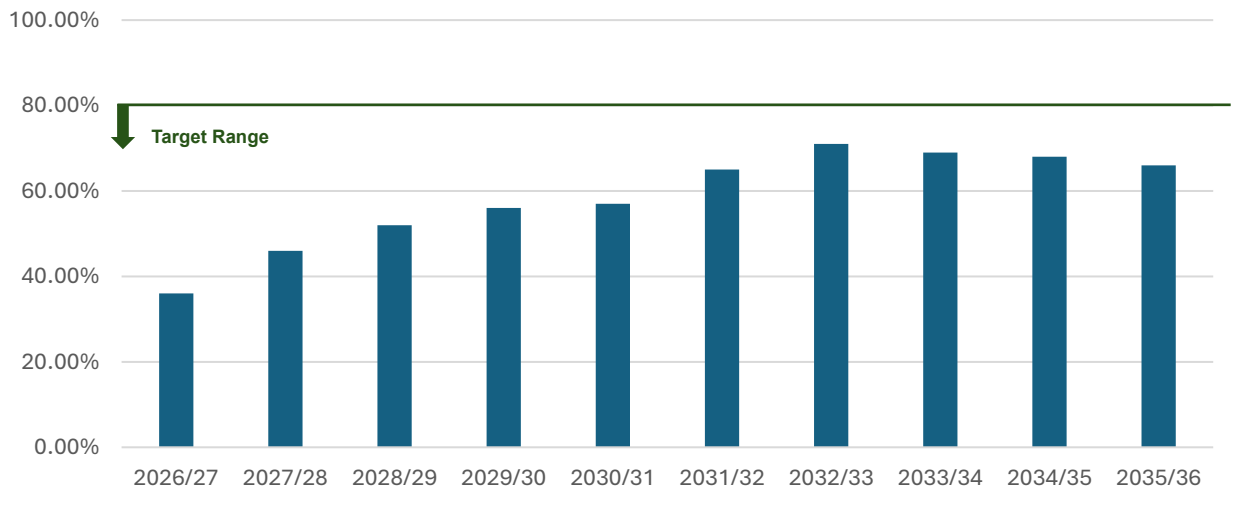
Council assesses the affordability and sustainability of borrowings by monitoring the Net Financial Liabilities Ratio, Asset Test Ratio, Interest Expense Ratio and Leverage Test Ratio, together with total borrowings against Council's prudential borrowing capacity. These measures assess Council's financial obligations relative to operating income, its capacity to service debt and the safeguards available over its level of borrowings. All measures are forecast to remain within their respective targets or policy limits over the life of the Plan.

While Council retains borrowing capacity, that capacity is finite. Changes in interest rates, capital costs, operating performance or significant renewal requirements may affect the affordability of future borrowings. The cumulative impact of Council decisions must therefore be assessed against the Long Term Financial Plan and Council's overall financial capacity.

How sustainability is measured

Council will monitor:

- the Net Financial Liabilities Ratio;
- the Asset Test Ratio;
- the Interest Expense Ratio;
- the Leverage Test Ratio;
- total borrowings against prudential borrowing capacity;
- forecast and actual financing costs; and
- liquidity and cash-flow requirements.



Net Financial Liabilities Ratio

CEO's assessment

The level of borrowings forecast in the Long Term Financial Plan is considered manageable and remains within Council's adopted prudential limits.

Council has the capacity to meet its forecast debt-servicing obligations without disruptive reductions in services or unplanned increases in rates. This assessment assumes that future borrowing decisions are supported by robust financial analysis and remain consistent with Council's Treasury Policy, Prudential Management Policy and Long Term Financial Plan.

The use of borrowings should continue to be appropriately matched to the nature and expected life of the assets being funded. The impact of new debt on Council's ability to respond to future risks and opportunities should also be considered before further commitments are made.

Key Risks to Long-Term Financial Sustainability

The Long Term Financial Plan is based on the best information available at the time of preparation. As a ten-year forecast, actual results will vary from the projections.

The principal risks to Council's long-term financial sustainability are:

Economic and inflationary pressures

Higher-than-forecast inflation may increase employee, contract, materials, utilities and construction costs. If Council's revenue does not increase at a comparable rate, operating results and asset delivery may be adversely affected.

Revenue performance

Council receives a material proportion of its income from fees, charges and commercial activities. Changes in city activity, parking demand, economic conditions, government policy or customer behaviour may affect these revenue streams.

Significant asset renewals

The final scope, timing and cost of major projects may vary from current estimates as further technical investigations are completed. Cost escalation or unanticipated asset condition issues could increase funding and borrowing requirements.

Capital delivery capacity

The Long Term Financial Plan includes a substantial program of asset renewal. Market capacity, contractor availability, procurement timing, internal resources and project sequencing may affect Council's ability to deliver this program as planned.

Interest rates and financing costs

Actual interest rates may differ from those assumed in the Long Term Financial Plan. Higher rates would increase financing costs and may reduce Council's future borrowing capacity.

Asset valuations and depreciation

Changes in asset values, useful lives and condition assessments may increase depreciation and future renewal requirements. Council's annual approach to reviewing asset information will assist in identifying and managing this risk.

Decisions made outside the Plan

Future decisions to introduce additional services, alter service levels, bring projects forward or increase capital expenditure may affect the sustainability outcomes presented in the Long Term Financial Plan unless accompanied by an identified and sustainable funding source.

These risks do not prevent Council from being financially sustainable. They demonstrate the importance of annual review, regular financial monitoring, disciplined project governance and timely adjustment of assumptions.

Overall Conclusion

Having considered the 2026/27 Annual Business Plan and Budget, the 2026/27 to 2035/36 Long Term Financial Plan, Council's Strategic Plan, the updated Asset Management Plans and Council's adopted financial principles, I am satisfied that the City of Adelaide's projected long-term financial performance and position are sustainable.

The Long Term Financial Plan demonstrates that Council can:

1. **continue to fund existing service delivery from operating revenue;**
2. **progressively and sustainably fund asset renewal requirements in accordance with the Asset Management Plans; and**
3. **meet its forecast debt-servicing obligations while remaining within adopted prudential limits.**

This conclusion is not without qualification. Sustainability will depend on Council maintaining operating discipline, implementing the planned transition to fully funded asset renewal, prudently managing borrowings and responding to changes in economic conditions, asset information and capital costs.

The Long Term Financial Plan should continue to be reviewed annually and updated whenever material changes arise. Individual decisions with significant financial implications should be assessed against their cumulative effect on Council's long-term financial position, rather than considered only on a standalone or single-year basis.

Subject to these disciplines being maintained, Council is appropriately positioned to continue delivering services, renewing community assets and meeting its financial obligations over the period from 2026/27 to 2035/36.

Michael Sedgman
Chief Executive Officer
City of Adelaide
October 2026