

Adoption of the Long Term Financial Plan 2022/23 to 2031/32

Tuesday, 28 June 2022

Special Council

Strategic Alignment - Enabling Priorities

Program Contact:

Grace Pelle, Manager Finance & Procurement

Public

Approving Officer:

Amanda McIlroy - Chief Operating Officer

EXECUTIVE SUMMARY

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 confirms that Council has the financial capacity to deliver services, maintain assets and achieve its strategic objectives in a financially sustainable manner.

The LTFP is an integral part of Council's Strategic Framework. It is built upon the 2022/23 Business Plan & Budget (BP&B) and is aligned to the City of Adelaide's 2020-2024 Strategic Plan and the Strategic Asset Management Plan and is reviewed quarterly.

Strong leadership and sensible financial management have seen us steadily improve our financial position in recent years. In 2022/23 we will continue to focus on responsible financial management without any impact to services, maintain our range of quality services and facilities to deliver good outcomes for our community, and commit to 'future proofing' and continued support of COVID-19 recovery.

The impacts of COVID-19 have been widespread and had a profound impact on city and Council operations and on city visitation. This has led to a reduction in forecast income from parking, the Aquatic Centre, Town Hall events and property tenants, as well as an anticipated decline in property valuations and therefore rate revenues. Council has implemented significant support packages through Reignite Adelaide to aid economic recovery in the city and North Adelaide and has also undertaken work to embed this recovery approach into broader financial management principles. Initiatives such as the Strategic Property Review and the development of a Future Fund and Investment Policy, also support Council's short and long term financial sustainability.

The global supply market has also been significantly impacted by COVID-19, leading to financial impacts for Council. The costs of materials have hit 20-year highs, with some material costs now between 20-40% higher than in recent years. These costs have the most impact in infrastructure markets and have created not only cost pressures, but also delivery and capacity issues.

Further, although costs are increasing, wages increases are not keeping up. The pressure on governments to manage these two significant factors in the economy is increasing, posing a risk to financial sustainability. Council has very limited ability to influence these and, as a result, City of Adelaide could see significant increases in costs, particularly in the short to medium term of the LTFP.

To ensure Council achieves long-term financial sustainability, the LTFP takes the current financial position and builds on this with likely future trends, using information based on Asset Management Plans, Council's Strategic Plan, continued levels and quality service delivery, anticipated growth of the City, and any other assumptions, including national and international contexts, as relevant.

Through ongoing review of the LTFP and inclusion of key financial sustainability initiatives, Council is confident of the ability to address the global pressures and manage ongoing service delivery for the benefit of our community.

RECOMMENDATION

THAT COUNCIL

1. Adopts the City of Adelaide 2022/23 Long Term Financial Plan document set out in Attachment A to Item 4.4 on the Agenda for the Special meeting of the Council held on 28 June 2022, noting it varies from the draft to incorporate amendments made to the 2022/23 Business Plan and Budget and update of indices for employee costs.

IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<p>Strategic Alignment – Enabling Priorities</p> <p>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 confirms that Council has the financial capacity to deliver services, maintain assets and achieve its strategic objectives in a financially sustainable manner.</p>
Policy	Not as a result of this report
Consultation	A public consultation process on the draft 2022/23 LTFP was held from 13 May to 6 June 2022. Results of this consultation were provided to Council on 14 June 2022.
Resource	Not as a result of this report
Risk / Legal / Legislative	<p>Council's LTFP is developed in accordance with section 122 of the <i>Local Government Act 1999 (SA)</i> (the Act), and section 5 of the Regulations.</p> <p>The new provisions of Section 122 of the Act are now operational. A summary of the key changes that impact this process is provided:</p> <ul style="list-style-type: none"> • Section 122(c) - The introduction of a Rates Oversight Scheme by ESCOSA by September 2022 • Section 122(3a) – A regulation making power for the Minister to prescribe additional requirements of Councils • Section 122((4b) – The Minister may require a report from the CEO to address matters relating to Strategic Management Frameworks • Section 122(4)(a) - LTFP must be revised on an annual basis (as opposed to the previous 'as soon as practicable after adopting the council's annual business plan for a particular financial year' • Regulation 5(2)(b) - requires a Council to specify the key assumptions that a LTFP is formed
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

Background

1. 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.
2. To ensure Council achieves long-term financial sustainability, the LTFP takes the current financial position and builds on this with likely future trends, using information based on Asset Management Plans, Council's Strategic Plan, continued levels and quality service delivery, anticipated growth of the City, and any other assumptions, including national and international contexts, as relevant.

Financial Sustainability

3. As a part of the 2022/23 Business Plan & Budget (BP&B) process the LTFP has continued to be reviewed and updated. Further analysis regarding Council's financial sustainability has been included, specifically:
 - 3.1. Sensitivity Analysis on key indices
 - 3.2. Scenario Analysis on significant risks and opportunities
 - 3.3. Greater connection to the Business Plan
4. Detail of the financial sustainability initiatives included in the LTFP per **Attachment A**, are summarised as follows:
 - 4.1. Delivery of \$4.75m budget repair item (from efficiencies and income) in 2021/22 which has provided ongoing favourable impact to Council's operating position
 - 4.2. Implementation of the Strategic Property Review, with sale of non-performing assets having a favourable impact to the debt position of Council
 - 4.3. Establishment and operation of the Future Fund and Investment Policy to ensure funds from asset disposals are quarantined for re-investment into income producing assets to alleviate the burden of reliance on rates income
 - 4.4. Inclusion of a \$4.8m budget offset item to alleviate the impact of increase depreciation costs. This will be achieved through:
 - 4.4.1. Verification of depreciation to Asset Management Plans
 - 4.4.2. Recovering revenue from existing commercial activities impacted by COVID-19
 - 4.4.3. Establishing revenue opportunities through new commercial opportunities and expansion of existing revenue streams
 - 4.4.4. Implementation of procurement efficiencies to deliver cost efficiencies and sustainable outcomes

Amendments to the LTFP

5. The LTFP was approved for public consultation, as part of the BP&B papers, by Council in May 2022. The public consultation took place from 13 May to 6 June 2022 in accordance with the *Local Government Act 1999 (SA)* (the Act) and the Public Consultation Policy. A summary of the feedback received during the consultation was received by Council at its meeting on 14 June 2022.
6. The Audit & Risk Committee reviewed the draft BP&B and LTFP at its meeting on 12 May 2022 and provided the following recommendations:
 - 6.1. *The Audit and Risk Committee supports the use of the latest key indicators such as Deloitte Access Economics, CPI, wage price and interest rate forecast index to be considered in the final budget.*
7. Post public consultation, several amendments have also been incorporated into the LTFP due to recent Council decisions and the receipt of updated information. The nature of these amendments and how they have been presented for adoption are summarised below:

For 2022/23

- 7.1. As a result of \$4m of funding from the State Government, the Mainstreets project has moved from a Project Opportunity to the Capital Projects list. This also appears in the Project Highlights section of the report.
- 7.2. As a result of its removal from the State Budget, the Cool Corridor project has been removed from Project Highlights. Council will deliver the Greener Street projects without partnership from the State Government, over two financial years.
- 7.3. Inclusion of grant income for Park Lands Sport Hub of \$2m and Roads to Recovery of \$0.255m. This has also resulted in a reprioritisation of the renewal program to take advantage of co-contributions.

For 2022/23 and future years

- 7.4. Inclusion of financial implications based on accounting standards for the two major contracts associated with 88 O'Connell Street and Central Market Arcade and developments (Market Square). Further detail on this adjustment is provided in the Long Term Financial Plan in **Attachment A**.
- 7.5. Wage Price Index as per the Deloitte Business Forecasts have been applied in years 2 to 10 of the LTFP in accordance with the Audit and Risk Committee recommendation.
- 7.6. Other indices have been updated using the latest Deloitte Business Forecast as at March 2022.
- 7.7. Council decided to freeze fees and charges and waive Park Lands event fees at its meeting on 14 June 2022. For years 2 to 10 of the LTFP, increases based on CPI assumptions (2.3% to 2.5%) have been retained to maintain consistency with rates revenue assumptions from 2023/24.

Statement from the Audit & Risk Committee

- 7.8. The Audit & Risk Committee sought independent advice regarding the financial and accounting implications of the contracts associated with the major projects for 88 O'Connell Street and the Central Market Arcade Redevelopment (Market Square).
- 7.9. The Audit and Risk Committee:
 - 7.9.1. Does not have a role to comment on the merit of the project, only to assess the implications on the financial sustainability of Council.
 - 7.9.2. Has reviewed the independent advice and discussed the details with the City of Adelaide CEO, management and the External Auditors.
 - 7.9.3. Acknowledges that recognition of interest during development, as required under Australian Accounting Standards, is a timing issue only, which will be resolved once the developments are complete, when the interest is returned to Council.
 - 7.9.4. Are not aware of any adverse, long term financial implications for Council associated with these contracts.
 - 7.9.5. Is satisfied that the successful delivery of these contracts should improve Council's financial sustainability, consistent with the objectives of the Strategic Property Review, endorsed by Council.

8. Below is the LTFP dashboard of key financial indicators from the final version per **Attachment A**.

Financial Indicator	Target	2022-23 Budget	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	5 Year Average	10 Year Average
Operating Surplus Ratio	0%-20%	0%	1%	1%	4%	7%	9%	10%	12%	13%	13%	3%	7%
Net Financial Liabilities	Less than 80%	10%	16%	24%	14%	3%	-5%	1%	-8%	0%	-13%	14%	4%

Asset Sustainability Ratio	90%-110%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Asset Test Ratio	Maximum 50%	12%	16%	7%	2%	0%	0%	0%	0%	0%	0%	7%	4%
Interest Expense Ratio	Maximum 10%	1.3%	0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1%	0%
Leverage Test Ratio	Maximum 1.5 years	0.3	0.4	0.2	0.0	-	-	-	-	-	-	0.2	0.1
Cash Flow fom Operations Ratio	Greater than 100%	107%	100%	105%	108%	110%	111%	97%	112%	94%	115%	106%	106%
Borrowings	Within Prudential Limits	39.8	55.7	27.5	6.7	-	-	-	-	-	-	25.9	13.0
		24%	30%	14%	3%	0%	0%	0%	0%	0%	0%	14%	7%
Operating Position	\$2m - \$10m	0.1	2.1	2.9	8.9	15.0	20.4	25.4	30.4	34.0	35.6	5.8	17.5

ATTACHMENTS

Attachment A – 2022/23 Long Term Financial Plan

- END OF REPORT -