

City of Adelaide

2023/24 Business Plan and Budget

Budget Scenarios and Projects Update

18 April 2023

Workshop Focus

- Review potential Budget Scenarios to inform the Draft 2023/24 Business Plan and Budget
- Update on Projects (Terminology and Categories)

COUNCIL ROLE:

- Discuss and provide feedback on Budget Scenarios

Key Questions

for today's workshop

KEY QUESTION

New capital

What are Council Members' views on the amount of new capital (excluding renewal) spend/investment for the 2023-24 year?

KEY QUESTION

Debt levels

What are Council Members' levels of comfort with regards to debt, to fund new capital projects?

KEY QUESTION

Funding sources

What are Council Members' views on the mix of funding to achieve the outcomes from the first 2 questions?

Understanding and Building a Business Plan and Budget

Council's journey to date

Context	<input checked="" type="checkbox"/>	Onboarding training on Strategy, Finance and Assets
	<input checked="" type="checkbox"/>	Priorities, opportunities, ways of working
	<input checked="" type="checkbox"/>	How we plan and budget guide and online research library
	<input checked="" type="checkbox"/>	Functional Directory and Program Guides
Building Planning Knowledge	<input checked="" type="checkbox"/>	Legislative requirements
	<input checked="" type="checkbox"/>	Capital, Asset Management and Integrated Planning
	<input checked="" type="checkbox"/>	Service Planning
	<input checked="" type="checkbox"/>	Financial Planning
Building Budget Knowledge	<input checked="" type="checkbox"/>	Organisational Finance update (history and current state)
	<input checked="" type="checkbox"/>	Discretionary responsibilities – understanding short and long term abilities
	<input checked="" type="checkbox"/>	Operating, Capital, Revenue/Income, Expenditure breakdown
	<input checked="" type="checkbox"/>	Fees and Charges, Rates, Borrowings – utilising financial levers
Building the 2023/24 Business Plan and Budget	<input checked="" type="checkbox"/>	Principles and Parameters
	April	Budget scenario building - proposed rates, fees and charges
	April	Consider Priorities and Projects
	April	Feedback from Audit and Risk Committee and proposed budget
	May	Draft budget – proposed expenditure (priorities, capital and strategic projects and services) for consultation
	May	Draft budget – proposed income (rates, fees and charges) for consultation
	May	Community Consultation and feedback
June	Adoption of Final 2023/24 Business Plan and Budget	

Budget Scenarios

Building Council's 2023/24 Business Plan and Budget

- Principles to build the BP&B
- Strategically linking budget components
- Concepts and assumptions
- Budget Scenario options

Principles

How they are addressed in the Budget

Principle	How addressed in Budget
General	
1. Maintain an operating surplus	Propose to use 75% of rate revenue from new rateable properties as the basis for the amount of target surplus (this can be higher to increase capital expenditure and service the associated debt)
Operating Expenditure	
2. Council will continue to deliver a minimum of the current suite of services and asset maintenance	Zero-based budgeting is the first step and complies with this principle, and assumes any new, enhanced or changed services will be presented to Council for approval
3. Index costs in line with Consumer Price Index (CPI)	Part of zero-based budgeting where each budget line is assessed for changes (increases, decreases or status quo) recognising that costs may need to increase (but pegged where possible to CPI or less)
4. Fund new or enhanced services, assets or maintenance requiring increased operating costs from adjustment of priorities, rate or other revenue increases and/or savings	Considers appropriate funding sources for increased costs associated with new initiatives or changes, given that there is limited capacity to simply absorb them recognising the savings achieved in recent years

Principles

How they are addressed in the Budget

Principle	How addressed in Budget
Operating Revenue	
5. Set fees and charges based on their nature and intent	Different fees and charges seek to address different objectives and behaviours, which are considered when setting individual fees each year
6. Maintain the current rating system for the 2023/24 Budget	There will be no structural changes to the way we rate however this does not preclude mass valuations and changes to the RID (if required)
7. Adjust rate revenue to achieve desired budget (as per Principle 1), only after consideration of all other budget components	All budget components (except rate revenue) will be finalised, based on addressing budget objectives set by Council, and only then will rate revenue be considered to meet the operating surplus target
8. Rate revenue growth will fund servicing new rateable properties and new borrowings	25% of new rate revenue growth allocated to operating budget to service new rateable properties, leaving 75% to service new debt drawn to fund new capital projects
9. Consider new and different revenue streams and the approach to our commercial businesses	Any new revenue streams identified and realised will be incorporated into the base budget to offset the need to increase other revenue components (eg Rates and Fees and Charges)

Principles

How they are addressed in the Budget

Principle	How addressed in Budget
Capital Expenditure	
10. Capital expenditure requires corresponding operating costs	5% of new capital costs included in the operating budget (to cover costs such as maintenance, depreciation, insurances, etc)
11. Capital renewal expenditure will be based on asset management plans	Renewal expenditure assumed as per proposed (approximately \$50m for 23-24 budget)
12. Capitalise on external funding, fast-tracking related projects, with the potential need for increased borrowings to respond to external funding opportunities	Projects that attract external funding are prioritised to be delivered when required in accordance with the conditions associated with the external funding
13. Consider the disposal, purchase and/or repurposing of property assets	Any sales, purchases or repurposing of assets, as endorsed by Council, will be incorporated into the appropriate part of the budget (which, where appropriate, will supplement the Future Fund)

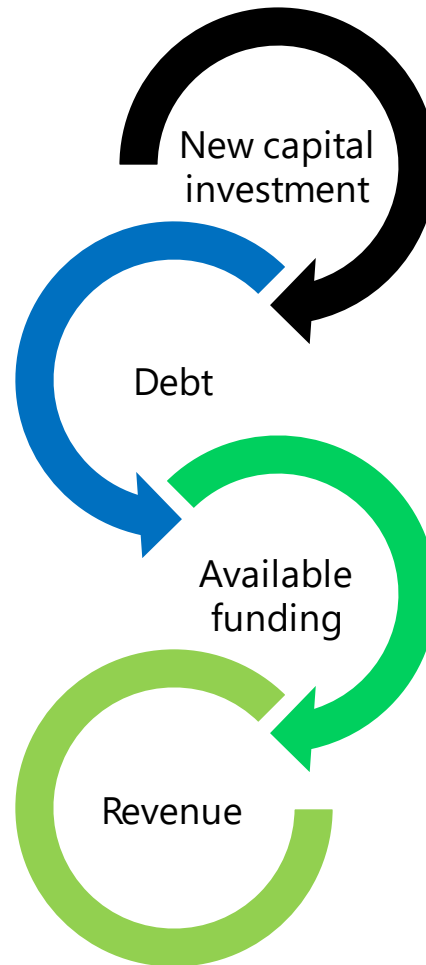
Principles

How they are addressed in the Budget

Principle	How addressed in Budget
Borrowings	
14. Borrowings only used to fund new and upgrade projects (which include major projects)	Proposed level of new capital spend (say, \$10m), assumed funded by drawing debt based on serviceability stemming from 75% of new rates revenue from growth
15. Borrowings not be used to fund operations, expenses or renewal projects	Operating cashflow to remain positive to ensure debt is not required to fund operating expenditure or capital renewal projects
Transparency	
16. Demonstrate transparency in decision making	Annual Business Plan will clearly and simply explain the decisions around setting the 23-24 Budget

Budget Scenarios

Linking budget components strategically



The amount of new capital to be funded over a given period...

...impacts the level of debt required (within prudential limits)...

...which impacts the amount of interest that needs servicing and the amount of principal that needs to be repaid...

...which predominantly comes from revenue sources (Rates, Fees and Charges).

Budget Scenarios

Assumptions

	Description	Principles
Current Base Budget	Zero-based budgeting (price and volume changes only). Does not assume any changes to services, any increase to Strategic Projects (> \$5.4m) and excludes growth revenue, costs to service new rateable properties and/or operating costs associated with new capital projects	Principle 2 Principles 3 & 5
Adjusted Base Budget	Includes additional requirements as proposed by Council to be included in the budget for community consultation	Principles 4 & 10
Rate revenue increase %	Balancing item after all other items tested & adjusted	Principle 7
Rate revenue from growth	Assumed at 1% of rate 22/23 revenue (\$1.2m) with 25% allocated to servicing new rateable properties and, 75% driving the annual surplus (as a minimum) and to service new debt	Principle 8
Surplus (\$)	Set, as a minimum operating surplus, at 75% of growth revenue (\$935k)	Principle 1
New capital (funded from debt & serviced from growth)	Net growth revenue of \$935k (75% of total) can service \$10m in debt for new capital (assumed at 6% interest rate over 20 years to reflect useful lives of different infrastructure and assets) – additional capital spend > \$10m will require additional funding from increased revenue, cost savings or re-prioritisation	Principle 14
Operating expenditure for new capital	Assumed at 5% of new capital expenditure funding (\$500k based on \$10m)	Principle 10
Operating expenditure to service new properties	Assumed at 25% of total growth revenue (\$312k) to cover the marginal cost of servicing new rateable properties)	Principle 8

Budget Scenarios

Options

Item	Status Quo Zero-based Budget	Scenario 1 Lower Fees	Scenario 2 Increased Fees	Comments
Rate revenue increase	●	↑	↓	Varies according to scenario
Outdoor dining fees	■	■	●	Reinstate fees fully (2)
Event fees	■	■	●	Reinstate fees fully (2)
Parking enforcement	↔	↓	↑	Resourcing increased somewhat more (2)
Off-street parking	↔	↓	↑	
On-street parking	↔	↓	↑	Increase by more than current (3) or reduce (3)
Other fees? (at CPI)	↔	↓	↑	
Target surplus	●	●	●	Surplus will be set subject to Capital Scenario
Growth allocation to operating	●	●	●	Will not vary in any scenario
Capital related costs	●	●	●	Will vary subject to Capital Scenario

■ Not included ● Included (in line with Principles) ↔ As supplied by business

Budget Scenarios

Capital options

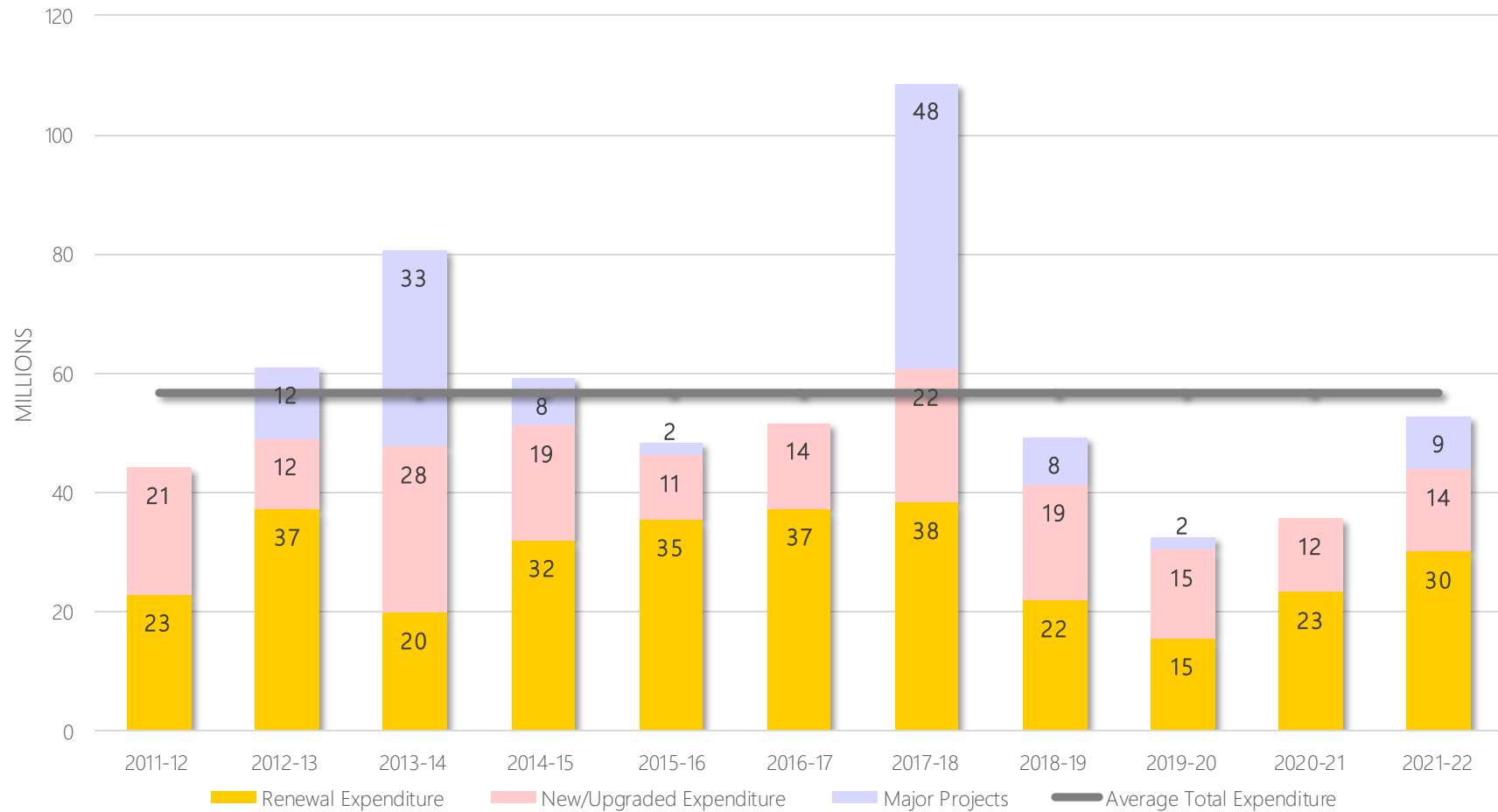
Item	\$10m	\$20m	\$30m	Assumptions/Comments
Required servicing \$ amount	\$0.9m	\$1.7m	\$2.6m	Assumed to be operating position surplus
Additional servicing amount > 75% of growth (\$935k)	Nil	\$0.8m	\$1.7m	Assumed at 1% of 22-23 rate revenue (\$1.246m)
Rate impact of additional servicing amount	Nil	0.65%	1.35%	Additional servicing as a percentage of 22-23 rate revenue
Peak debt	\$154m	\$165m	\$165m	Assumes year on year delivery and drawdown Prudential limit = \$165m
Timing of peak debt	Year 10	Year 5-6	Year 3-4	Assumed over 10 year period or once prudential limit reached
Related operating costs	\$0.5m	\$1.0m	\$1.5m	Assumed at 5% of capital projects
Total rate revenue increase	5.1%	6.2%	7.3%	To achieve surplus of required servicing amount (holding all else constant)

Additional assumptions:

1. Based on "Status Quo" scenario
2. Interest on borrowings at 6% per annum and principal paid back over 20 years
3. Same amount spent/debt drawn each year for 10 years, unless prudential limit reached
4. Entire renewal budget is spent each year

Budget Scenarios

Historic Capital Budget Spend



Budget Scenarios

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Projects Update

Building Council's 2023/24 Business Plan and Budget

- Background
- Project types and terminology

Project Planning

Background

- A key area of focus when building the business plan and budget is on the services (BAU operations) we deliver for the community (about 60% of expenditure) and rates, fees and charges (about 80% of income)
- Another key component of Council's delivery is across Capital and Strategic Projects
- In our next session with Members we will detail the Strategic and Capital Projects proposed or scheduled for 2023/24
- The following slides provide a brief introduction to how these projects have been developed and categorised, ahead of a more detailed discussion in the next session

Sequence of activities in building our Projects:

- Our Strategic, Service and Asset Plans provide guidance
- Council resolutions seeking new projects are identified
- Administration articulate projects from our plans, community insights and from resolutions of Council as project briefs
- Each project is categorised and assessed through a prioritisation framework
- Draft projects are provided to Council Members for consideration and to identify other opportunities
- Council Members provide guidance on project expenditure parameters
- A list of projects is endorsed for public consultation, and subject to consultation feedback, adopted

Project Type

Capital and Operating Budgets and Council discretion

Type	Description	Budget	Discretion
Major Projects	Complex Projects that are valued over \$4m	Capital Budget	<i>Full discretion in the short and long term</i>
New and Upgrade	Installation of new infrastructure and upgrades to existing infrastructure, identified through Council strategies and plans	Capital Budget	<i>Full discretion in the short term</i>
Renewals	Renewal of existing assets, where the functionality and service the assets provides is considered fit-for-purpose	Capital Budget	<i>Limited discretion in the short term</i>
Strategic Projects	Support the delivery of a Strategic Plan and have arisen due to either Council decisions or partnerships. They are generally 'one off' activities that have been prioritised to be delivered within a specific timeframe.	Operating Budget	<i>Full discretion in the short term</i>
Service Change	A service change is defined as an ongoing change to the level or way a service or function is delivered (including resource and budget changes).	Operating Budget	<i>Some discretion in the short term</i>

Project Prioritisation

Terminology of how projects have been assessed

Category 1 (Priority funding)	Category 2 (additional funding)	Category 3 (everything)
<p>Business Critical Projects (Safety/ Contracted / Legislated)</p> <p>Asset Renewal</p> <p>Decisions of Council</p> <p>External Funding – Committed: Where an agreement to deliver a project has already received committed external funding, which may or may not require Council funding</p> <p>Projects in Progress: Ongoing Projects with approved funding</p>	<p><u>Category 1 Projects</u></p> <p>Current Multi Year Projects: These are projects which have received funding in the current year and require approval for future funding</p> <p>Revenue Opportunity: To enable Council to fund the purchase of future income generating assets and to invest in strategic capital projects (LTFP Principle) (Future Fund)</p>	<p><u>Category 1 and 2 Projects</u></p> <p>External Funding – to Seek: Where a project is identified as being able to be delivered, if funding is found from another source. This can also support Council's advocacy to government for co-funding.</p> <p>New Projects: Projects which have identified funding for one year only</p> <p>New Multi Year Projects: Projects which have identified funding for multiple years</p>

Next Steps

Building Council's 2023/24 Business Plan and Budget

<u>Next Session</u>	<u>CEO Briefing</u> Strategic and Capital Projects in detail
<u>May</u>	<u>Special Committee and Council</u> Draft Business Plan and Budget (including Subsidiaries) Fees and Charges
May/June	Public Consultation
June	Receive results of Public Consultation Adopt Final Business Plan and Budget