

## ELECTED MEMBERS' BRIEFING SESSION COVER SHEET

<b>Date of Workshop:</b>	06 February 2023
<b>Subject:</b>	Introduction to Financial Planning and the Budget Process
<b>Department:</b>	Business Support & Improvement
<b>Presenter(s):</b>	Alex Brown Nicola Tinning
<b>Session:</b>	Open to the public.
<b>Attachments:</b>	<i>Attachment 1 (Budget Bid Template)</i>

---

### PURPOSE

This briefing provides an overview of Council's Financial Planning Framework and the Draft Long-Term Financial Plan (LTFP), and introduces the process for the development of the 2023-24 Annual Business Plan and Budget (ABP&B).

The objectives of the session are to:

- Introduce the Financial Planning Framework and approach to ensuring Council's long term financial sustainability, including an outline of the review ESCOSA will undertake in 2024.
- Introduce the Long-Term Financial Plan and discuss the key assumptions used and financial targets for the Plan.
- Introduce the Annual Business Plan and Budget and provide an explanation of the budget framework
- Outline the proposed process and key milestones for the development of the 2023-24 Annual Business Plan and Budget

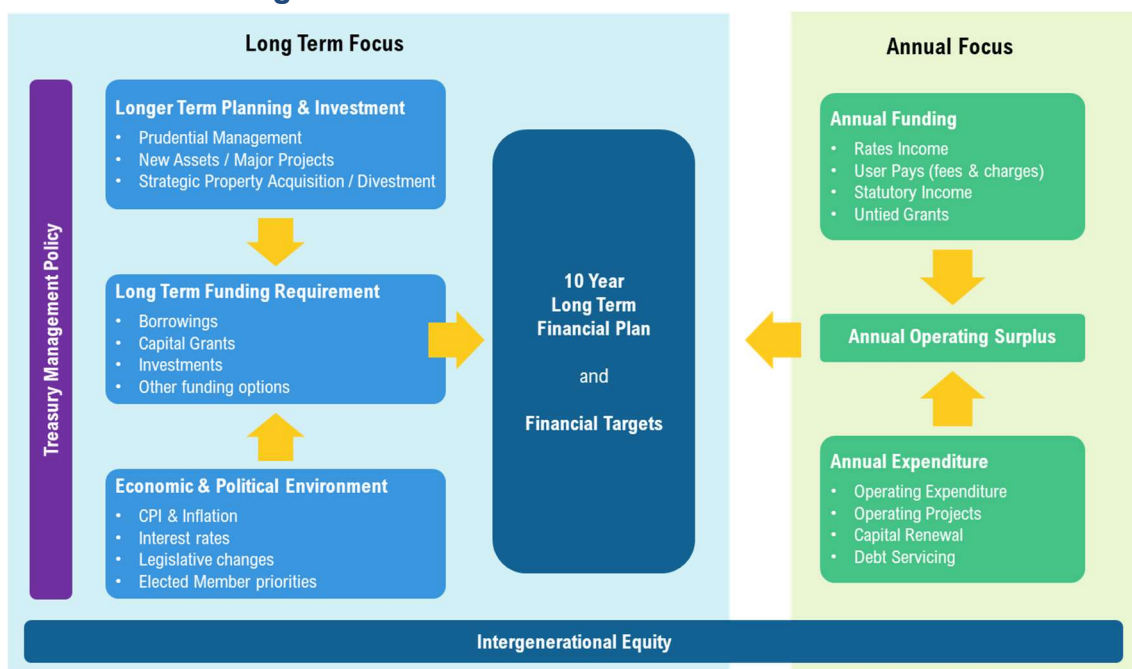
The workshop will also explain the next steps for the preparation of project budget bids that will be considered by Members at the next workshop on Monday 20 March.

### DISCUSSION

#### **Financial Planning Framework and Financial Sustainability**

Council has an established Financial Planning Framework which guides both long term and annual planning. It seeks to balance Council's priorities with its financial resources to ensure long term financial sustainability. The Framework is summarised in the diagram on the following page:

## Financial Planning Framework



When reviewing the LTFP, consideration is given to:

- Council's longer term strategic investment priorities, including
  - new and significantly upgraded assets (eg. King William Road and Ridge Park Master Plan), and
  - strategic property acquisition and divestment (eg. Unley Central).
- the economic and political environment Council operates within, and
- the long term funding requirement and sources to maintain services and existing assets.

The Annual Planning Process, which is driven by the Annual Business Plan and Budget, considers:

- the annual sources of funding (rate income, fees and charges, and untied grants),
- expenditure associated with ongoing service delivery (eg operational expenditure and capital renewal), and annual objectives and initiatives (operating projects) aligned to the 4 Year Plan.

The operating surplus provides capacity to repay borrowings and fund longer strategic priorities.

The Treasury Management Policy underpins Council's decision making regarding the financing of its operations as documented in the LTFP and ABP&B, together with associated projected and actual cash flow receipts and expenditure.

The Financial Management Framework is based on the foundation of Intergenerational Equity: The principle that the cost of infrastructure and services should be funded and shared by those who enjoy the benefit of the service (ie. both current and future ratepayers).

Legislation and ESCOSA agree that intergenerational equity requires adopting sound long-term financial management principles, particularly in relation to the balance between debt and cash in financing ongoing service delivery.

### Financial Sustainability

Three key ratios are used by the to monitor Council's long term financial sustainability as required by section 5(1) of the *Local Government (Financial Management) Regulations 2011*. These are outlined below:

- **Operating Surplus Ratio**  
Measures of the ability to cover annual operational costs and have revenues available for capital funding, repayment of debt or the introduction of new services.
- **Net Financial Liabilities Ratio**  
This ratio measures councils ability repay what is owes (debt, creditors etc) at the end of a financial year compared with its income for the year. Other terms include liquidity or working capital.
- **Asset Renewal Funding Ratio**  
This the amount of asset renewal expenditure compared to the level of expenditure identified in the adopted Asset Management Plans.

The long targets for these ratios are considered as a part of the annual review of the LTFP, with input from the Audit Committee.

The targets for these ratios are to guide Council in the development of the annual budget preparation. For very good reason the annual targets may need to vary from the long term financial plan target where particular circumstances have arisen in a financial year to support a variation (eg. high inflation, the impact of COVID-19 etc).

The forecast ratios are updated quarterly as part of the quarterly Budget Reviews, with the final result reported as part of the General Purpose Financial Statements presented to Council in November each year.

### **ESCOSA Review**

The Essential Services Commission of South Australia have commenced a four year rolling program to review the long term financial plans (LTFPs), infrastructure and asset management plans (IAMPs), and revenue sources for each council within South Australia. Known as the Local Government Advice scheme, the City of Unley will be reviewed in late 2024 which is the third year of the program.

According to ESCOSA, the advice from the review is intended to:

- *support councils to make decisions relating to their annual business plans and budgets in the context of their LTFP and IAMPs, which together are foundational documents that set out how councils propose to manage their financial position and performance over the longer term, and*
- *assist councils to make appropriate decisions on the level of financial contributions to be made by ratepayers for the provision of services and infrastructure within the context of their LTFPs and the financing options available to councils (such as the use of borrowings or reserves).*

Key to the review will be an analysis of Council rates increases, relative to the consumer price index, and the provision of services and infrastructure, in the context of three elements (the sustainability elements):

- **Program stability**

This relates to the provision of reliable quality services over time, and requires a stable and consistent set of actions, from the perspective of day-to-day operations and infrastructure management.

- **Rate stability**

This relates to charging ratepayers reasonably to fund the services, underpinned by the program of works noted previously (program stability). Rates should be stable, noting that stable does not mean fixed, but rather the absence of large or unplanned year-on-year variances.

- **Intergenerational equity**

This relates to fairly sharing services and the associated cost between current and future ratepayers. It requires adopting sound long-term financial management principles, particularly in relation to the balance between debt and cash in financing service delivery.

The City of Unley will be required to provide information to ESCOSA in August 2024, with ESCOSA to provide its advice by February 2025. Council will then be required to publish the advice and a response to the advice in its Draft 2025-26 Annual Business Plan and Budget for public consultation.

### **Draft Long-Term Financial Plan (LTFP)**

The LTFP guides the development of the Annual Business Plan and Budget. The intention is to assist Council in maintaining current services, without unplanned or significant increases to the rates paid by ratepayers or unplanned cuts to services.

The draft LTFP has been prepared with the following key assumptions:

- Forecast Adelaide CPI based on SA Treasury forecast for 2022-23 (to inform 2023-24 rate increase).

**This will be reviewed as part of the planned March Budget workshop;**

- General Rates have been modelled at
  - Increase from valuations: Adelaide CPI forecast for the preceding year
  - Growth of 0.5% from new developments and capital improvements;
- Operating Projects: \$1.1M then indexed in future years (including \$250K for the election every 4 years);
- New Capital (estimate): \$3.5M per annum, then indexed by CPI from 2026-27;
- Capital Renewal: In line with the Asset Management Plans
- Includes the Liability Guarantee Fee paid by Centennial Park Cemetery Authority (CPCA), but excludes the operating surplus/deficit for CPCA, the Brown Hill Creek Stormwater Management Board, and East Waste.

Economic indicators are regularly monitored and the LTFP is updated to reflect the latest forecasts.

The following table outlines the economic indicators that informed the Draft LTFP that was presented to the Audit Committee in November 2022.

	Presented to Audit Committee November			
	2022-23 (June 23)	2023-24	2024-25	2025-26
<b>Adelaide CPI (SA Treasury)</b>	5.0%	3.25%	2.75%	2.75%
<b>RBA Cash Rate (NAB)</b>	3.1%	3.1%	3.1% Dec 24	
<b>Employment Growth (SA Treasury)</b>	1.0%	1.0%	1.0%	1.0%
<b>Wage Price Index (RBA)</b>	3.4%	3.8%		

A revised LTFP using the latest economic indicators will be discussed during the workshop.

The following table summarises the key assumptions in the LTFP:

Item		Assumption
<b>Rates</b>	Increase from valuations	Adelaide CPI forecast for the preceding year, capped at 3.5%
	Increase from new developments	0.5%
<b>Fees and charges</b> (predominantly user charges)		Previous fees with consideration for increases in the cost of delivering the service costs, step changes in previous years and comparison to similar facilities (e.g. Swimming Centre and venue hire)
<b>Grants, subsidies &amp; other income</b>		CPI for recurrent funding/income (unless advised otherwise)
<b>Employee Costs</b>		Based on Enterprise Bargaining Agreements
<b>Contractors, materials &amp; other expenditure</b>		Adelaide CPI (look at indices for specific costs (e.g. utilities))
<b>Depreciation</b>		Presently indexed, noting revaluation of significant asset classes in 2022-23
<b>Interest Rates</b>		Assume weighted average interest rate 3.0% above RBA cash rate
<b>Operating Projects</b>		\$1.1M indexed by CPI (indexed from a \$1m base for 2021-22)
<b>New Assets</b>		\$3.5M per annum, then indexed by CPI from 2026-27
<b>Asset Renewals</b>		Presently in line with the Asset Management Plans (ie. Asset Renewal Funding Ratio at 100%)

The following three key financial indicators are used to monitor Council's financial sustainability as previously outlined.

- **Operating Surplus Ratio**  
Ensures annual expenses are met and debt commitments serviced.
- **Net Financial Liabilities**  
Monitors Council's ability to repay all monies owing including debt.
- **Asset Renewal Funding Ratio**  
Ensures current assets are maintained in accordance with adopted asset management plans.

The Audit Committee reviewed the draft LTFP in November 2022 and recommended the following targets based on a forecast CPI for 2022-23 of 5% from SA Treasury. Note that the forecast interest rate for the preceding year is generally used when considering rate increases.

<b>Financial Indicator</b>	<b>Existing Target from 2022-23</b>	<b>Target Recommended by Audit Committee</b>	<b>Draft LTFP forecast 2023-24</b>
Operating Surplus Ratio	5%	4%	4.5%
Net Financial Liabilities Ratio	< 80%	< 80%	24%
Asset Renewal Funding Ratio	= > 100%	= > 100%	100%

## **The Annual Business Plan and Budget**

### Introduction

The Annual Business Plan and Budget (ABP&B) outline's Council's strategic objectives, planned services and agreed projects for the coming financial year, and explains how it intends to fund them. In particular, it details:

- The Annual objectives for the year in the context of Council's long-term strategic objectives;
- Overview of the services and activities provided by Council;
- Key financial information relating to revenue and expenditure;
- Proposed new initiatives and projects;
- The rating context and impact of rates to be paid for the financial year; and
- Council's Financial Planning Framework including LTFP and Asset Management Plans (AMP).

### Budget Framework

Council's annual budget consists of the following budget categories:

- **Operating Budget (excluding Projects)**  
The core services and operations of Council summarised by Operating Programs. *As previous explained, the Annual Operating Plan details the objectives, services and activities of each Operating Program.*

- Operating Projects**  
 Operating projects and initiatives are not asset related and are developed in consultation with Council. These include environmental initiatives, events, economic development initiatives and other short term initiatives or programs (eg. City Wide Parking Strategy).
- New Capital Projects**  
 Capital works are works that create new infrastructure and assets, or the significant upgrade to existing infrastructure and assets. This includes contributions to the Brownhill Keswick Creek Stormwater Management Project and the delivery of endorsed strategies such as the Cycling and Walking Plan.
- Capital Renewal Programs**  
 Capital Programs to renew Council’s infrastructure and assets. These are developed with reference to Council’s Asset Management Plans and are based on condition and levels of service.

The management of the budget is underpinned by the Budget Framework. The Framework formalises the process for changes to the annual budget, as part of the quarterly budget reviews, as a result of responding to opportunities, emergencies, or other unforeseen events at the time of setting the budget.

The key principles for changes in funding within each budget category, as part of the Quarterly Budget Reviews, are outlined in the table below:

<b>Budget Category</b>	<b>Approval Process</b>
Operating Budget (excluding Projects)	Council approval will be required where total operating expenditure varies from its approved budget as presented in the Statement of Comprehensive Income.
Operating Projects	<p>Council approval will be required where a change in individual project expenditure is required unless a reallocation occurs between two projects linked to an identical outcome and delivered by the same budget program.</p> <p>Council approval is also required where a new Operating Project is to be considered or an Operating Project deferred.</p>
New Capital Projects	<p>Council approval will be required where a change in individual project expenditure is required.</p> <p>Council approval is also required where a new Operating Project is to be considered or an Operating Project deferred.</p>
Capital Renewal Programs	<p>Where changes to the expenditure budget for an Asset Category is necessary, Council approval is required.</p> <p>When grant funding is received with equivalent income and expenditure, the budget can be adjusted to account for the grant without the need for separate Council approval.</p>

## 2023-24 Annual Business Plan and Budget Process

The preparation and review of the Annual Business Plan and Budget (ABP&B) commenced in November with the Audit Committee's review of the draft Long Term Financial Plan, and concludes with the adoption of the ABP&B in June 2023.

The annual budget process is an intense process that pulls resources from across the organisation for a period of no less than 8 months. In addition to the annual budget process, the full financial compliance and reporting requirements of legislation sits alongside and is ongoing over the full 12 months. The resource impact of the new ESCOSA review is yet to be measured.

Key stages and proposed dates for the 2023-24 Annual Business Plan and Budget are as follows:

Stage	Description	Date(s)
Audit Committee review LTFP	Audit Committee review key assumptions and financial targets for the Draft LTFP.	November 2022
This workshop	Council Workshop to consider budget process and consider the Draft LTFP, including key assumptions and financial targets.	Mon 6 Feb
Budget Bids Due	Elected Member Budget Bids for Operating Projects and New Capital Projects through the Budget Portal	Thur 23 Feb
Council Workshops to consider Project Budgets & draft Budget Position	Two workshops have been scheduled for Elected Members to review and prioritise the Budget Bids. An update on the draft LTFP and draft budget position will be provided.	Mon 20 March and Thur 23 March
Draft ABP&B for Public Consultation	Council to approve the Draft Annual Business Plan and Budget for Public Consultation.	Mon 24 Apr
Public Consultation	Public Consultation process involving community forums.	Fri 28 Apr – Fri 19 May
Council Workshop to consider consultation feedback and rates	Final budget workshop to consider feedback from Public Consultation, consider Council Rates and the final proposed budget position.	Mon 29 May
Adoption of the 2023-24 ABP&B	Council adopt the Annual Business Plan and Budget, adopt property valuations, declare the rates in the dollars, and approve the fees and charges.	Mon 27 June



## Budget Bids for Operating Projects and New Capital Projects

Details of the process to prepare and lodge project bids using the Budget Bid Template (attached) will be provided by email on Tuesday 7 February. Administration has also prepared budget bids to progress the objectives of endorsed strategies, plans and objectives, along with initiatives to support operational improvements.

If you are looking to submit a project bid, the relevant General Manager would welcome a conversation to discuss your proposed approach, resource impact or assist with cost estimates. It will also inform if two or more project bids for the same things are being prepared.

*Attachment 1*

**Budget Bids are due on Thursday 23 February.** This will provide sufficient time for the General Managers to review and collate them prior to inclusion in the Workshop Briefing Papers for the Council Workshop 20 March 2023.

## Operational Budgets, Fees and Charges and Capital Renewal Programs

Administration is preparing the operational budgets for Council's ongoing operating services and programs. The existing (2022-23) objectives, service levels, income and expenditure and activities of each budget programs are detailed in the Annual Operating Plans (distributed in November). Any material variations to these will be discussed further at the budget workshop.

Members were provided with a copy of this document as part of their induction pack.

The proposed Capital Renewal Programs are currently being prepared with reference to the Asset Management Plans. These will be advised at the Council Workshop on 20 March.

## Fees and Charges

The proposed Fees and Charges are being reviewed by service areas to ensure that they:

- reflect (or move progressively toward) the cost of the services given;
- are comparable with market rates, where appropriate;
- take into account benefit derived by users of community facilities;
- are consistent with Council directions articulated through existing policy or plans; and
- are consistent with Council's Long Term Financial Plan assumptions.

The draft Fees and Charges will be distributed to Council in May, prior to the final Council Workshop.

## **SPEAKERS**

Alex Brown                      Manager Finance and Procurement  
Nicola Tinning                General Manager Business Support and Improvement

## ***THE BRIEFING IS OPEN TO THE PUBLIC***

- *This is a public document.*

**Budget Bid Template**

<b>Project Name</b>	
<b>Budget Bid Proposer</b>	Name
<b>Amount Requested</b>	\$ To be discussed with the relevant General Manager if required.
<b>Description</b>	Describe the project.
<b>Strategic Alignment</b>	How does the project align to the 2021-25 4 Year Plan?
<b>Project Scope</b>	What is included/excluded in the project?
<b>Proposed Milestones (if applicable)</b>	Describe stage of the project (if applicable)
<b>Resource Considerations</b>	To be discussed with the relevant General Manager if required.
<b>Related Projects (if applicable)</b>	