

ELECTED MEMBERS' BRIEFING SESSION COVER SHEET

Date of Workshop:	16 December 2024
Subject:	Long-Term Financial Plan 2025-26 to 2034-35
Department:	Corporate Support
Presenter(s):	Max Murawsky, Strategic Finance Projects Lead Alex Brown, General Manager Corporate Support
Session:	Open to the public.
Attachments:	<i>Attachment 1 (Draft LTFP Summary 2025-2035)</i>

PURPOSE This briefing provides an overview of the Draft 2025-26 to 2034-35 Long-Term Financial Plan (Draft LTFP), and an opportunity to discuss the key assumptions and financial targets for the LTFP.

Further updates of the Draft LTFP will be provided in March and May 2025, as part of the Annual Business Plan and Budget process for 2025-26, prior to the adoption of the LTFP in mid-2025.

DISCUSSION

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 updated with the 2023-24 financial year results, latest economic forecasts, and revenue and expenditure forecasts. The Draft LTFP includes the proposed capital renewal expenditure from the adopted Asset Management Plans, and allocations for Operating Projects and New Capital Projects.

The Essential Services Commission of South Australia (ESCOSA) is in the process of reviewing the current Adopted LTFP and Asset Management Plans. ESCOSA will release their recommendations to the City of Unley in a public report by 28 February 2025.

Economic Indicators and Current Assumptions

The following table outlines the economic indicators that informed the Draft LTFP which was presented to the Audit and Risk Committee in November 2024. The economic indicators are regularly monitored and the LTFP is updated to reflect the latest forecasts.

	Presented to Audit & Risk Committee November			
	2024-25	2025-26	2026-27	2027-28
Adelaide CPI (SA Treasury 2024-25 Budget)	3.5%	2.75%	2.5%	2.5%
RBA Cash Rate (NAB October 2024)	4.35% Dec 2024	3.35% Dec 2025	3.1% Dec 2026	-
Employment Growth (SA Treasury 2024-25 Budget)	0.5%	0.75%	1.0%	1.0%
Wage Price Index (RBA August 2024)	3.6% Dec 2024	3.5% Dec 2025	3.3% Dec 2026	-

The following table summarises the key assumptions currently included within the Draft LTFP:

Item	Assumption	
Operating Revenue		
Rates	Increase from valuations	Adelaide CPI forecast for the preceding year, capped at 3.5%
	Increase from new developments	0.5% - currently modelling additional growth from major developments (Note: 0.35% of any growth above 0.5% is allocated to the Open Space Fund)
Statutory Fees and Charges	Adelaide CPI for the preceding year, noting these are specified by statute and not determined by Council. History shows that annual increases are generally in line with CPI.	
User Fees and Charges	Adelaide CPI for the preceding year, noting some fees & charges may vary from this due to specific reasons, including larger step changes in previous years and comparison to similar facilities (e.g. swimming centre, venue hire).	
Grants, subsidies and other income	Adelaide CPI for the preceding year (unless advised otherwise). Some grants are only included for the expected duration of the grant program (e.g. Supplementary Local Roads Grant).	
Investment Income	Interest rate for cash deposits is assumed to be 0.5% lower than the forecast RBA cash rate (assume 3% RBA cash rate long term).	

Item	Assumption
Operating Expenditure	
Employee Costs	In line with Enterprise Bargaining Agreements, then assume 3% pa.
Contractors, materials and other expenditure	Adelaide CPI unless material variances known for long-term contracts e.g. electricity.
Depreciation	Existing Assets – Annual indexation in line with forecast Adelaide CPI to reflect an increase in valuation. New Assets – An annual allowance for the construction of new and upgraded assets based on new capital expenditure, with an assumed average estimated useful life of 75 years.
Finance Costs	Assume weighted average interest rate 3.0% above RBA cash rate (assume 3% RBA cash rate long term).
Operating Projects	\$1.6M from 2025-26, indexed annually by Adelaide CPI.
Capital Expenditure	
New Assets	\$4.0M (2024-25 baseline), indexed by Adelaide CPI. \$4.14M in 2025-26.
Asset Renewals	Currently in line with the Asset Management Plans (i.e. Asset Renewal Funding Ratio at 100%).

The current Draft LTFP includes the Liability Guarantee Fee paid by Centennial Park Cemetery Authority (CPCA), but excludes the operating surplus/deficit for CPCA, the Brown Hill Keswick Creeks Stormwater Management Board, and East Waste.

The assumptions, including forecast indexation for specific revenue and expenditure categories (e.g. fuel and utilities) will be refined as part of the 2025-26 Budget process. However, these are not expected to have a material impact on the net operating position of Council.

Forecast General Rate Increase

The General Rate increase has been initially aligned to forecast Adelaide CPI for the preceding year before returning to a longer-term assumption of 2.5%. This has resulted in a forecast average increase of 2.6% per annum across the 10 years of the Draft LTFP.

The Draft LTFP assumes additional rate income from new developments, and capital additions to existing properties, of 0.5% per annum. This results in a forecast average increase in General Rate revenue of 3.1% per annum.

Although the Draft LTFP does not presently incorporate growth above 0.5%, the Open Space Fund Policy states that 0.35% of growth beyond 0.5% will be allocated to the Fund.

The forecast growth from major developments, including Unley Central, Forestville, and the Living Choice Development (the former Julia Farr site), is currently being modelled and will be presented as part of the 2025-26 Budget process. As part of this modelling, options to increase the annual allocation to the Open Space Fund will be considered and presented to Council for consideration.

Project Expenditure

As outlined in the assumptions, the following amounts have been allocated for Operating Projects, New Capital Projects and Capital Renewal Programs in the Draft LTFP:

- Operating Projects \$1.6M per annum, indexed annually
- New Capital Projects: \$4.1M per annum, indexed annually
- Capital Renewal Programs: In line with the Asset Management Plans (12.7M for 2025-26)

Key funding priorities for the 2025-26 financial year, incorporated in the LTFP's New Capital allocation, include:

- Brownhill Keswick Creek Stormwater Project \$840K
- City Wide Flood Mitigation Plan \$864K
- Unley Museum Expansion \$1.331M (50% funding split over two years)
- Property and Rating System \$750K

Combined, these projects total \$3.8M in 2025-26. These and other priorities for the 2025-26 Annual Business Plan and Budget will be presented as part of a Budget Workshop scheduled for March 2025.

Borrowings

Council's borrowings are forecast to increase in each year of the Draft LTFP, from \$5.1M in 2025-26 to \$11.9M in 2034-35. The increase in borrowings is required to fund a portion of the New Capital Projects and will only be drawn down as required.

As the *Net Financial Liabilities Ratio* peaks at 20% in the Draft LTFP (see following page), this level of borrowings is well within Council's present target ratio of 80% and current borrowing capacity.

Key Financial Indicators

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

- **Operating Surplus Ratio** – Ensures annual expenses are met and debt commitments are serviced.

The Draft LTFP indicates that Council will achieve an average operating surplus of \$3.6M per annum, or ratio of 5.0%, over the life of the LTFP. Each year is within Council’s current adopted target of between 4% and 6%, with the average of 5% over the 10 years in line with the adopted 5% target. This ratio has decreased by 0.2% compared to that presented to the Audit and Risk Committee in November, due to additional finance costs resulting from the purchase of 2 Marion Street, Unley for open space.

- **Net Financial Liabilities Ratio** – Monitors Council’s ability to repay all monies owing including cash borrowings.

The Draft LTFP forecasts that Council’s capital commitments can largely be met from existing resources, however additional borrowings are forecast for each of the ten years of the LTFP to fund a portion of the New Capital Projects.

The forecast average net financial liabilities ratio over the LTFP is 18%, commencing at 14% in Year 1 and increasing to a peak of 20% in Years 8 and 9. This is well within the current target range of less than 80%.

- **Asset Renewal Funding Ratio** – Ensures current assets are maintained in accordance with adopted asset management plans.

The Draft LTFP provides for full funding of the current asset management plans, with a ratio of 100% of required asset renewal expenditure.

Audit and Risk Committee Recommendations

The Audit and Risk Committee reviewed the draft LTFP in November 2024 and recommended the following targets:

Financial Indicator	Existing Target from 2024-25	Recommended by Audit & Risk Committee	Draft LTFP Forecast Year 1 2025-26
Operating Surplus Ratio	4-6% with an average of 5% over the LTFP	4-6% with an average of 5% over the LTFP	5.0%
Net Financial Liabilities Ratio	< 80%	< 80% (risk appetite to be considered)	14%
Asset Renewal Funding Ratio	≥ 100%	≥ 100%	100%

The Audit and Risk Committee did not propose any changes to the *Operating Surplus Ratio* and *Asset Renewal Funding Ratio*. However, it did recommend that Council considers its risk appetite for borrowings before adopting the target for the *Net Financial Liabilities Ratio*. That is, does Council have the appetite to borrow \$45M (approximately 80%) as opposed to say \$25M (approximately 50%).

It should be noted that Net Financial Liabilities include trade and other payables, and provisions, which are forecast to total approximately \$4.1M in Year 1 of the plan. With these provided for, the remainder is the cash borrowings capacity.

$$\text{Net Financial Liabilities Ratio} = \frac{\text{Net Financial Liabilities}^*}{\text{Total Operating Income}}$$

* Net Financial Liabilities = Total Liabilities less Current cash and cash equivalents, Current trade & other receivables, Current other financial assets, and Non-current financial assets (from Statement of Financial Position)

The following table explains the borrowing capacity providing for each 10% increment in ratio (from 10% to 80%), based on year 1 (2025-26) of the current Draft LTFP.

Net Financial Liabilities Ratio	Net Financial Liabilities \$	Net Financial Liabilities excluding borrowings (Based on forecast NFL for 2025-26)	Estimated Cash borrowings capacity
10%	\$6.2M	\$4.1M	\$2.1M
20%	\$12.4M	\$4.1M	\$8.3M
30%	\$18.6M	\$4.1M	\$14.5M
40%	\$24.9M	\$4.1M	\$20.7M
50%	\$31.1M	\$4.1M	\$26.9M
60%	\$37.3M	\$4.1M	\$33.1M
70%	\$43.5M	\$4.1M	\$39.4M
80%	\$49.7M	\$4.1M	\$45.6M

The targets for the LTFP are considered annually as part of the Annual Business Plan and Budget process, and formally adopted in June when revisions to the LTFP are adopted.

Council may wish to consider its risk appetite for borrowings, and the *Net Financial Liabilities Ratio* target, over the next 12 months in the context of the Four Year objectives of the Community Plan.

Summary

The Draft LTFP indicates that the City of Unley will remain financially sustainable across the 10 years of the LTFP. In particular:

- Current service levels can be maintained with rate stability, and the minimum target operating surplus ratio will be achieved.
- The Asset Management Plans are fully funded to undertake the asset renewals required by the Plans. Sufficient funding capacity has also been provided to progressively deliver new and upgraded infrastructure.
- Council has the borrowing capacity to respond should unforeseen circumstances or opportunities arise.

The LTFP is reviewed regularly and updated to reflect the most current information available.

Next Steps

The Four Year delivery objectives, informed by the Community Plan, will be incorporated into the Draft LTFP in the coming months.

A further update to the Draft LTFP will be provided as part of the 2025-26 Annual Budget Plan and Budget (ABP&B) workshop in March 2025, prior to being incorporated in the Draft ABP&B for Community Consultation.

A final update will be presented for feedback in early June 2025, prior to adoption of the LTFP mid 2025 following the adoption of the ABP&B.

SPEAKERS

Max Murawsky Strategic Finance Projects Lead
Alex Brown General Manager Corporate Support

THE BRIEFING IS OPEN TO THE PUBLIC

- *The cover sheet is a public document.*

DRAFT 2025-35 Long-Term Financial Plan Summary (Baseline November 2024)

\$'000	2025-26 Year 1	2026-27 Year 2	2027-28 Year 3	2028-29 Year 4	2029-30 Year 5	2030-31 Year 6	2031-32 Year 7	2032-33 Year 8	2033-34 Year 9	2034-35 Year 10
Income										
General Rates Income	50,803	52,454	54,028	55,648	57,318	59,037	60,809	62,633	64,512	66,447
Other Rates and Levies	2,321	2,385	2,444	2,506	2,568	2,632	2,698	2,766	2,835	2,906
Statutory Charges	1,855	1,906	1,953	2,002	2,052	2,104	2,156	2,210	2,265	2,322
User Charges	2,551	2,621	2,687	2,754	2,823	2,894	2,966	3,040	3,116	3,194
Grants, subsidies & contributions	3,258	3,145	3,224	3,305	3,387	3,472	3,559	3,648	3,739	3,832
Investment Income	15	15	15	15	15	15	15	15	15	15
Reimbursements	225	231	237	242	249	255	261	268	274	281
Other Income	1,107	1,138	1,166	1,196	1,225	1,256	1,287	1,320	1,353	1,386
Projects	-	-	-	-	-	-	-	-	-	-
Total Income	62,135	63,895	65,754	67,668	69,638	71,665	73,751	75,899	78,109	80,384
Expenditure										
Employee Costs	21,648	22,297	22,966	23,655	24,364	25,095	25,848	26,624	27,422	28,245
Materials, Contracts & Other Expenses	22,780	23,407	23,992	24,592	25,207	25,837	26,483	27,145	27,823	28,519
Depreciation, Amortisation & Impairment	12,731	13,138	13,524	13,922	14,331	14,752	15,185	15,630	16,088	16,560
Finance Costs	287	354	409	471	529	581	626	663	692	710
Operating Projects	1,600	1,644	1,685	1,727	1,770	1,815	1,860	1,907	1,954	2,003
Total Expenditure	59,045	60,839	62,576	64,367	66,201	68,080	70,002	71,969	73,981	76,037
Operating Surplus/(Deficit)	3,090	3,056	3,178	3,301	3,436	3,585	3,749	3,930	4,128	4,347
Capital Renewal Expenditure (net)	12,743	13,093	13,421	13,756	14,100	14,453	14,814	15,184	15,564	15,891
New Capital Expenditure (net)	4,140	4,254	4,360	4,469	4,581	4,695	4,813	4,933	5,056	5,183
Total Capital Expenditure (net)	16,883	17,347	17,781	18,225	18,681	19,148	19,627	20,117	20,620	21,074
Add back Depreciation	12,731	13,138	13,524	13,922	14,331	14,752	15,185	15,630	16,088	16,560
Operating Surplus/(Deficit) less capital expenditure	(1,063)	(1,154)	(1,078)	(1,003)	(914)	(811)	(693)	(557)	(404)	(167)
Fixed Term Borrowings	-	-	-	-	-	-	-	-	-	-
Cash Advance Debenture (CAD Borrowings)	5,123	6,277	7,355	8,358	9,272	10,083	10,776	11,333	11,737	11,904
Total Borrowings	5,123	6,277	7,355	8,358	9,272	10,083	10,776	11,333	11,737	11,904
Repayment of Fixed Term Borrowings	-	-	-	-	-	-	-	-	-	-
Repayment/(draw-down) of CAD	(1,063)	(1,154)	(1,078)	(1,003)	(914)	(811)	(693)	(557)	(404)	(167)
Net repayment/(draw down) of borrowings	(1,063)	(1,154)	(1,078)	(1,003)	(914)	(811)	(693)	(557)	(404)	(167)

Key Financial Indicator	2025-26 Year 1	2026-27 Year 2	2027-28 Year 3	2028-29 Year 4	2029-30 Year 5	2030-31 Year 6	2031-32 Year 7	2032-33 Year 8	2033-34 Year 9	2034-35 Year 10
Operating Surplus Ratio (Existing Target 5%)	5.0%	4.8%	4.8%	4.9%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%
Net Financial Liabilities Ratio (Existing Target <80%)	14%	15%	17%	18%	18%	19%	19%	20%	20%	19%
Asset Renewal Funding Ratio (Existing target 100% average over 10 years)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Asset Renewal Funding to Depreciation	100%	100%	99%	99%	98%	98%	98%	97%	97%	96%