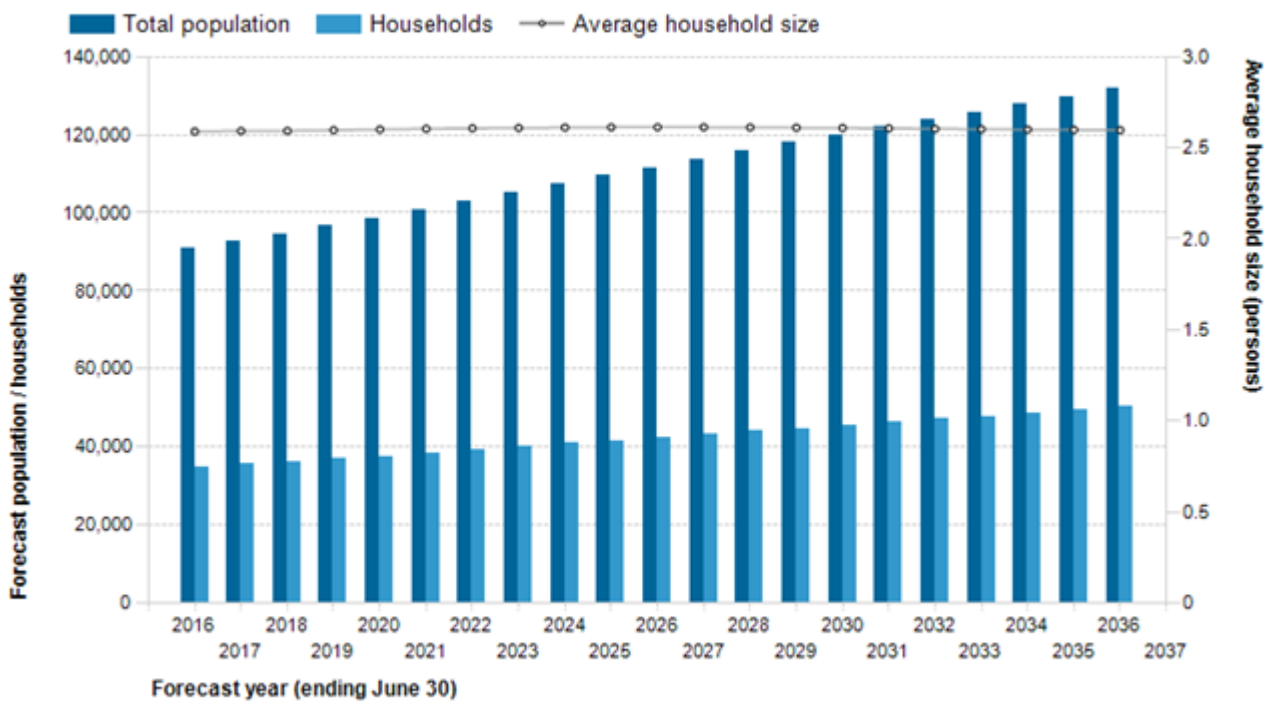


# 3. CEO STATEMENT ON FINANCIAL SUSTAINABILITY

City of Playford (Playford) has been growing since its formation in 1997. After 21 years of historical growth Playford is still projected to experience long periods of higher than average growth when compared to other South Australian councils and indeed many councils across Australia. Growth projections currently forecast an increase from 36,127 dwellings in 2018 to over 50,000 dwellings by 2036.

## Forecast population, households and average household size

City of Playford



Population and household forecasts, 2016 to 2036, prepared by .id the population experts, December 2017.



Financial sustainability is key to ensuring that Council is able to continue to effectively manage this growth for the benefit of its existing community and for those generations to come.

Defined by the Local Government Association (LGA), financial sustainability is where Council’s long-term financial performance and position is sustainable with planned long-term service and infrastructure levels and standards being met without unplanned increases in rates or disruptive cuts to services.

In simple terms, the principle of financial sustainability is that each generation ‘pays their way’ for the services and assets that they consume. With a recent sustained focus on efficiency Playford now moves towards ongoing operating surpluses limiting the creation of ‘bad’ debt derived from deficit budgets. With strategies being developed and executed to reduce ‘bad’ debt and with ‘good’ debt associated with high quality community assets being sustainably managed over asset life Playford’s commitment to the achievement and maintenance of financial sustainability will continue to provide benefits to its growing community.

Playford adopts a holistic and proactive approach to financial management. The management of operating results, debt and asset growth is integrated into strategic planning, asset management planning and long term financial plans as well as the day-to-day activities of the organisation. This ensures measured decision making, performance measurement and regulatory reporting for the benefit of the organisation and the community it serves.

## FINANCE STRATEGY

Council's finance strategy is based on achieving a long term financial position that is able to deliver planned services, manage debt and support and promote the growth of the city.

The Long Term Financial Plan (LTFP) modelling provides a high level budget framework to guide us when preparing the budget detail and ensure we understand the future impact of decisions made today.

The modelling assumes that Council will continue to use debt in the short term and longer term as a mechanism for funding new or enhanced assets as a way of achieving inter-generational equity.

The finance strategy is based on key parameters regarding sustainability and is used as a guiding principle for assessing the financial impact of all decisions. These are:

### Break-even operating result as defined by the LGA

Council draws closer to this in the early years of the LTFP. Years of substantial deficit are most often linked to the impact of Financial Assistance Grants payment timing as described in section 2. Improvement over the next 3 years is due to the impact of the Continuous Improvement savings being directed to the operating position as well as the implementation of financial sustainability initiatives. Furthermore, Council intends to reduce the reliance on income sources that cannot be influenced such as grant funding. This will strengthen the sustainability of our future operating position.

### Debt Management Strategy

Effective debt management provides security on Councils financial sustainability. The LGA prescribes debt as a suitable way to provide intergenerational equity to ensure that all generations share the responsibility for the assets and services they consume. Debt management therefore requires an understanding of debt purpose, debt profile e.g. fixed or variable and a clear repayment strategy. Management of these key areas ensures that debt is sustainable regardless of the level.

### Asset Growth Management

Council accepts responsibility for providing a high standard of assets and services to the community. In doing so, it is essential to have strong financial management surrounding asset growth. In order to provide assets Council must ensure that the assets are funded. Traditionally this funding has been largely reliant on rate increases. While this funding pathway is still relevant, Council has taken on the responsibility of trying to alleviate this reliance by assessing other assets and means to fund them. As a result the focus on investment assets has increased. These assets are self-funded and require little or no reliance on ratepayer funding whilst still addressing the issue of intergenerational equity as the returns are delivered over time.

Overall the finance strategy underpins the Council's ability to deliver on financial sustainability. This Long Term Financial Plan projects that Council is well equipped to manage the demands of a growing council for years to come.

## LONG TERM FINANCIAL PLAN RESULTS

The LTFP forecasts a solid improvement in Council's financial position and performance over time. Council's debt position is largely contributed to years of operating in deficit and the Long Term Financial Plan accounts for the repayment of these in the short to medium term through the achievement of surpluses and targeted debt

strategies. In addition, investment decisions such as the Northern CBD will drive greater returns to contribute to long term surpluses. The positive impact of operating surpluses helps to reduce the debt over the 10 year term. Council is committed to a surplus budget for 2019/20 and project to improve surplus positions over the 10 year term.

Long Term Financial Plan 2019/20	Current 2018/19 \$mill	Year 1 2019/20 \$mill	Year 2 2020/21 \$mill	Year 3 2021/22 \$mill	Year 4 2022/23 \$mill	Year 5 2023/24 \$mill	5 Year Average \$mill	10 Year Average
Operating Income	98.3	106.5	110.1	115.1	119.3	123.5	114.9	125.5
Operating Expenditure	105.9	106.2	109.3	113.8	117.6	120.3	113.4	122.8
<b>Operating Result - Surplus (Deficit)</b>	<b>(7.6)</b>	<b>0.2</b>	<b>0.8</b>	<b>1.4</b>	<b>1.7</b>	<b>3.2</b>	<b>1.5</b>	<b>2.7</b>
Closing Balance Borrowings	147.9	169.1	166.2	155.6	145.4	136.3	154.5	134.5

Council is forecasting budgeted ratios within the ranges adopted by Council in the medium to long term.

The following table lists the financial indicators that Council uses in assessing financial sustainability.

Long Term Financial Plan 2019/20	Current 2018/19 %	Year 1 2019/20 %	Year 2 2020/21 %	Year 3 2021/22 %	Year 4 2022/23 %	Year 5 2023/24 %	5 Year Average %	10 Year Average %
Operating Surplus Ratio (0-10%)	(7.7%)	0.2%	0.7%	1.2%	1.5%	2.6%	1.2%	2.1%
Cash Flow From Operations Ratio (90-110%)	85.8%	103.9%	107.4%	113.0%	117.8%	128.6%	114.1%	127.4%
Asset Renewal Funding Ratio (90-110%)	105.9%	108.3%	112.6%	91.9%	91.6%	94.8%	99.8%	92.5%
Net Financial Liabilities Ratio (50-160%)	170.8%	177.8%	169.7%	153.7%	140.6%	128.8%	154.1%	128.7%
Interest Expense Ratio (3-10%)	8.6%	8.4%	7.6%	8.0%	7.2%	6.3%	7.5%	6.1%

The above averages indicate that Council anticipates borrowings to improve over the next 10 years and along with a \$352 million increase in the levels of property, plant and equipment in the balance sheet. The positive signs in the balance sheet are reflective of growth, continuous improvement and Council's commitment to financial sustainability.