

Strategic Alignment - Enabling Priorities

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Public

Approving Officer:
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EXECUTIVE SUMMARY

Quarterly reporting is an important part of monitoring the organisation's performance and effectiveness against Council's planned activities, required under Section 122 (1) of the Local Government Act (SA) 1999. The consideration of performance information quarterly enables Council to make informed and timely decisions to maintain or change its services, assets and budgets to meet community expectations and needs.

With a longer-term lens, quarterly reporting supports a focus on improving Council's financial position and promotes robust financial management, along with a commitment to transparency and accuracy, delivering Council's Strategic Plan and enabling Council to be responsive to risks and opportunities. This is supported by Council's ongoing focus on a financially sustainable approach to asset renewals, growing and diversifying revenue streams, and ensuring maximum return on our investments for the benefit of our community.

This report presents progress of achievements against the 2022/23 Business Plan and Budget (BP&B) in the past quarter, assesses performance, and recommends changes to services, projects or budget as a result of this assessment to inform decision making. Council also receives information on the progress of its subsidiaries.

There is no change to Council's estimated operating expenditure and income for Quarter 3 from the previous quarter. Borrowings are projected at \$9.9m (down from \$37.9m at Quarter 2). The reduction in borrowings in part is attributed to several Capital Works projects extending their delivery into next year, resulting in additional carry forwards. There are a number of challenges which have impacted the ability to deliver the planned program of works such as material and contractor availability and an unfavourable procurement environment with challenging market conditions. As a result, at the end of Quarter 3 (and including previous quarters) a total of \$30.12 million of carry forwards have been identified for the capital program.

The information and updates in this report and attachments are as at 31 March 2023.

Quarterly reports are also provided to the Audit and Risk Committee in accordance with its Terms of Reference and its role in monitoring the integrity of Council's financial statements and reporting, as well as its role in reviewing and overseeing Council's integrated Business Planning process. This reporting framework supports Council's commitment to transparency and accountability.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Approves the changes for the 2022/23 Business Plan and Budget as identified in this report and reflected in the Quarter 3 update presented in Attachment A to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023.
2. Approves the Uniform Presentation of Finances as presented in Attachment A to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023 and the revised Annual Financial Summary as identified in this report, which include:

- 2.1. Total estimated operating income of \$213.446 million (\$213.446 million in Q2)
 - 2.2. Total estimated operating expenditure (including depreciation) of \$213.359 million (\$213.359 million in Q2)
 - 2.3. An operating surplus of \$87,000 (\$87,000 in Q2)
 - 2.4. Council borrowings (debt) projected to \$9.9 million (\$37.9 million in Q2).
 3. Approves the proposed changes to Operating Position of:
 - 3.1. New offsets across both expenditure and revenue totalling \$1.988 million towards the \$4.83 million savings target set by Council
 4. Approves the revised Capital Budget for 2022/23 of:
 - 4.1. Major Projects expenditure of \$17.1 million (previously \$30.5 million in Q2)
 - 4.2. New and Upgrades expenditure of \$6.5 million (previously \$11.3 million in Q2)
 - 4.3. Renewals expenditure of \$38.2 million (previously \$42.6 million in Q2)
 - 4.4. Capital Program Management expenditure of \$9.8 million (no change from the \$9.8 million in Q2)
 - 4.5. Grant funding to support capital expenditure on new/upgraded assets of \$11.7 million (previously \$11.5 million in Q2).
 5. Notes the Adelaide Central Market Authority Quarter 3 report 2022/23 (Attachment B to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023).
 6. Notes the Adelaide Economic Development Agency Quarter 3 report 2022/23 (Attachment C to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023).
 7. Notes the Kadaltilla / Park Lands Authority Quarter 3 report 2022/23 (Attachment D to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023).
 8. Notes the Brown Hill Keswick Creek Quarter 3 report 2022/23 (Attachment E to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 10 May 2023).
 9. Notes that at the end of this Quarter 92% of Projects were capitalised within 10 Weeks, exceeding the 70% target set by the Audit and Risk Committee at it's meeting of 5 February 2021.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities Regular reporting to the Audit and Risk Committee on the performance of the organisation demonstrates good governance and supports sound financial management and decision making that enables Council to achieve financial sustainability.
Policy	Not as a result of this report.
Consultation	Not as a result of this report.
Resource	Not as a result of this report.
Risk / Legal / Legislative	The regular monitoring and reporting of Council's performance is a key step in mitigating risks events that could impact the delivery of the Strategic Plan and Business Plan and Budget. This includes monitoring the performance of services, business activities, project delivery and the performance of subsidiaries.
Opportunities	The provision of quarterly reporting assists Council to fulfill its obligations of Section 122(1) of the Local Government Act 1999 (SA) with regard to the development, management and monitoring of the documents within the Strategic Management Framework.
22/23 Budget Allocation	Not as a result of this report.
Proposed 23/24 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.
22/23 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

Community Services Quarter Highlights

1. Quarter 3 updates and highlights for Council's 13 community facing services are available in **Attachment A**, from page 8.
2. The assessment of service delivery and performance is in line with the 2022/23 BP&B. No recommended changes have been identified to the levels of service and activities Council delivers as part of this Quarterly Review.
3. Changes to the budget position (Operating Budget) for these services are provided in detail from paragraph 23 of this report.

Capital Program Summary

4. The Capital Program Plan and Budget summary is available in **Attachment A** (from page 13).
5. The Capital Program is delivered across:
 - 5.1. Major Projects: Significant works of a capital nature that are over the prudential limit, multi-year or have significant grant funding.
 - 5.1.1. At the end of Quarter 3, 85% of Council's projects has been delivered or committed.
 - 5.2. New and Upgrade: Works of a capital nature that are either introducing new assets or significantly upgrading existing assets, usually by extending the footprint of an asset or increasing the level of service the asset provides.
 - 5.2.1. At the end Quarter 3, 65% of the new and upgrade program has been delivered or committed. Several new projects have been created during the quarter to respond to Council decisions or reflect Community needs (see page 21 in **Attachment A**).
 - 5.3. Renewals: Works of a capital nature that are replacing an existing asset like for like or like for modern equivalent.
 - 5.3.1. Progress has been made across all asset classes this quarter, resulting in 88% of the 2022/23 program currently delivered or committed.
6. Several projects across Major Projects and New and Upgrade have extended their delivery into next year, resulting in additional carry forwards. At the end of Quarter 3 (and including previous quarters) a total of \$30.12 million of carry forwards have been identified for the capital program, consisting of:
 - 6.1. \$24.27 million of Major Projects, including:
 - 6.1.1. Central Market Arcade Redevelopment – \$10.44 million
 - 6.1.2. Rymill Lake/Murlawirrapurka (Park 14) Upgrade – \$3.57 million
 - 6.1.3. Mainstreet Improvements (Hutt St Entry Statement and Melbourne St Improvement) – \$2.93 million
 - 6.2. \$5.85 million of New and Upgrade Projects, including:
 - 6.2.1. Southwest Community Centre – \$1.5 million
 - 6.2.2. Mini Golf within North Adelaide Golf Course – \$1.95 million
 - 6.2.3. Frome Street Footpath Upgrades (In conjunction with N-S Bikeway Project) – \$0.55 million
7. There are some external factors that pose risks to delivery of the capital program, including rising costs of utilities, supply chain limitations, and labour market limitations.
8. Changes to the Capital Program Plan and Budget for this quarter are provided below, from paragraph 25 of this report.

Strategic Projects Summary

9. Each year, Council allocates budget to strategic projects that address immediate and future needs, complementing existing services.
10. For 2022/23, Council set a budget parameter for Strategic Projects at a maximum (after grants) of \$5.7 million. A commitment was made to deliver on the Strategic Project parameter by seeking grants and partnerships to make up any increase in expenditure to this parameter.
11. The Strategic Projects Plan and Budget summary is available in **Attachment A** (from page 38).

12. Changes to the Strategic Projects Plan and Budget for this quarter are provided below, from paragraph 23 of this report.

Quarterly Planning and Budget Review

Year to Date Financial Summary

13. The year-to-date operating position as at 31 March 2023 is an operating surplus of \$39.7 million, which is \$9.5 million better when compared to the adopted budget of \$30.2 million for this period.
- 13.1. Total operating income of \$191.0 million.
- 13.2. Total operating expenditure of \$151.4 million.
14. This positive increase in operating surplus is predominantly as a result of:
- 14.1. Lower employee expenses of \$2.5 million
- 14.2. Decrease costs in supplies and services of \$3.7m, largely driven by professional services
- 14.3. Decrease in grants and contributions paid of \$1.2m
- 14.4. Increase in user charges revenue of \$1.0m.
15. Year-to-date Capital expenditure of \$34.5 million for the period to 31 March 2023 is \$13.8 million higher than the budget of \$20.7 million.
16. As of 31 March 2023, Council had no borrowings, with \$21.9 million in deposits.

Revised Annual Financial Summary

17. The proposed quarter review continues to deliver an end of year operating surplus of \$87,000, which consists of:
- 17.1. Total estimated operating income of \$213.446 million (compared to \$213.446 million as per the adopted 2022/23 BP&B).
- 17.2. Total estimated operating expenditure (including depreciation) of \$213.359 million (compared to \$213.359 million as per the adopted 2022/23 BP&B).
18. Total proposed Capital Expenditure for Quarter 3 is \$71.6 million, a reduction of \$22.6 million from Quarter 2.
19. Grant funding to support capital expenditure on new/upgraded assets is \$11.7 million, an increase of \$0.2 million as a result of the timing of receipt of grants.
20. The above changes result in a decrease to Council's forecasted borrowings as of 30 June 2023 to \$9.9 million from \$37.9 million in Quarter 2.
21. Updated financial statements as of the end of this quarter are available in **Attachment A** (from page 50).

Proposed changes to Operating Position, including Strategic Projects

22. A budget repair target of \$4.83 million was set by Council in the 2022/23 BP&B:
- 22.1. \$0.78 million was identified and realised in Quarter 1.
- 22.2. A further \$2.04 million was identified and realised in Quarter 2.
- 22.3. A further \$1.988 million has been identified in Quarter 3, as outlined in **Attachment A** (page 51).
- 22.4. The remaining \$0.017 million will be identified and realised in Quarter 4.
23. Strategic Project changes this quarter:
- 23.1. Community Planning & Development.
- 23.1.1. Adelaide Zero project increase in funding from \$0.03 million to \$0.157 million following a decision of Council in August 2022.

Proposed changes to Capital Budget

24. Year-to-date Capital expenditure is \$34.5 million for the period to 31 March 2023, which is \$13.8 million higher than the budget of \$20.7 million.
25. Major Projects show a revised expenditure of \$17.1 million, a reduction of \$13.4 million from Quarter 2.
26. New and Upgrade projects show revised expenditure of \$6.5 million, a reduction of \$4.8 million from Quarter 2.

27. Renewals show a revised expenditure of \$38.2 million, a reduction of \$4.4 million from Quarter 2.
28. Capital Program Management expenditure of \$9.8 million is unchanged from Quarter 2.
29. These changes are detailed in **Attachment A** (from page 13).

Assessment of KPIs

30. On 5 February 2021, the then Acting Chief Executive Officer gave an undertaking to provide ongoing capitalisation updates to the Audit and Risk Committee based on key performance indicators (KPIs).
31. At the end of Quarter 3:
 - 31.1. *KPI 1: 70% of Projects capitalised within 10 Weeks* - is considered to be on track as 92% of completed projects were capitalised within 10 weeks of practical completion at the end of this Quarter, which is an improvement from the 78% at the same time last year.
 - 31.2. *KPI 2: < 10% Variance between Preliminary Year End and Annual Financial Statement* - is an annual measure which is determined at the end of the financial year.

Long Term Financial Plan (LTFP)

32. The City of Adelaide LTFP is a dynamic financial model which analyses financial trends over a ten-year period, based on a range of assumptions. This provides Council with information that ensures resourcing requirements are assessed to achieve its strategic objectives and allows Council to ensure its future sustainability.

Specific proposed changes to the LTFP are:

33. Retiming of capital projects and associated grant income into 2023/24 as detailed above.
34. Updates to capital projects in future years following decisions of Council.

Changes to the LTFP assumptions

35. At the meeting of the Audit and Risk Committee on 4 February 2022, an undertaking was given to include information on the impacts of Consumer Price Index (CPI) and increased interest rates in the quarterly LTFP updates.
36. Deloitte's Access Economics data is used as a source for forecasting assumptions for key indicators such as CPI, Interest and Wages. This reputable data source ensures consistency of assumptions across the life of the plan. Further it ensures a state-based projection.
37. It is proposed that the assumptions used in preparing the adopted LTFP are updated with the latest data release from Deloitte in March 2023.
38. The detail of this amendment is provided in the tables below:
 - 38.1. The CPI assumption in the 2022/23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics projections for South Australia. The revised assumptions are based on the March 2023 projections.

Assumption	22/23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
CPI - Adopted	1.80%	2.34%	2.38%	2.38%	2.31%	2.41%	2.47%	2.32%	2.36%	2.29%
CPI – Current Approved (Sep 2022)	No Change - will be managed via Quarterly updates.	4.20%	2.50%	2.50%	2.50%	2.50%	2.40%	2.30%	2.30%	2.40%
CPI – Revised		4.10%	2.60%	2.50%	2.50%	2.50%	2.40%	2.30%	2.30%	2.40%

- 38.2. The Wage Price Index (WPI) assumption in the 2022/23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics projections for South Australia. The revised assumptions are based on the March 2023 projections for those financial years where there is not a current Enterprise Agreement in place.

Assumption	22/23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
WPI - Adopted	2.00%	2.80%	2.71%	2.62%	2.70%	2.69%	2.97%	3.15%	3.21%	3.32%
WPI – Current Approved (Sep 2022)	No Change - will be managed via Quarterly updates.	3.60%	3.30%	3.10%	3.20%	3.40%	3.50%	3.50%	3.40%	3.40%
WPI - Revised		3.60%	3.30%	2.90%	3.00%	3.10%	3.10%	3.10%	3.20%	3.30%

38.3. The Interest assumption in the 2022/23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics 10 Year Government Bond projections for Australia. The Revised assumptions are based on the March 2023 projections, from 2023/24.

Assumption	22/23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Interest Rates - Adopted	1.68%	2.23%	2.37%	2.46%	2.66%	2.78%	2.71%	2.48%	2.25%	2.10%
Interest Rates – Current Approved (Sep 2022)	No Change - will be managed via Quarterly updates.	3.20%	3.00%	3.00%	3.00%	3.10%	3.10%	3.10%	3.10%	3.10%
Interest Rates - Revised		3.50%	3.00%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%

DATA AND SUPPORTING INFORMATION

The following data sources were used in developing this report:

- Profile ID (data sources utilised to update the City Profile)
 - Deloitte Access Economics (data sourced utilised by Finance to support updates to the LTFP)
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ATTACHMENTS

Attachment A – 2022/23 Business Plan and Budget: Quarter 3 update

Attachment B – Adelaide Central Market Authority Quarter 3 update

Attachment C – Adelaide Economic Development Agency Quarter 3 update

Attachment D – Kadaltilla / Park Lands Authority Quarter 3 update

Attachment E – Brown Hill Keswick Creek Quarter 3 update

- END OF REPORT