

Q4 Business Update

Strategic Alignment - Enabling Priorities

Public

Tuesday, 19 September 2023
City Finance and Governance
Committee

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EXECUTIVE SUMMARY

This report presents progress of achievements and performance against the adopted 2022/23 Business Plan and Budget (BP&B), and is also provided to the Audit and Risk Committee in accordance with its Terms of Reference and its role in monitoring and reviewing Council's financial statements and reporting, as well as its role in reviewing and overseeing Council's integrated Business Planning process.

Quarterly reporting is an important part of monitoring the organisation's performance and effectiveness against Council's planned activities, which is required under Section 122 (1) of the *Local Government Act (SA) 1999*. It enables Council to make informed and timely decisions to maintain or change its services, assets and budgets to meet community expectations and needs, maintaining or improving Council's financial position and enabling Council to be responsive to risks and opportunities.

The preliminary end of year financial result is estimated as follows:

- Operating Surplus of \$1.27 million.
- Capital Expenditure of \$57.3 million
- Borrowings of \$7.5 million
- Future Fund Balance of \$28.2 million (which offsets total borrowings)

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 the financial year an additional \$6.62 million of carry forwards have been identified for the capital program in Quarter 4. This will be incorporated into the Quarter 1 2023/24 Report to be presented in November 2023, once financial statements are audited and finalised.

This report was considered by the Audit and Risk Committee on 1 September 2023.

The information and updates in this report and attachments are as at 30 June 2023.

RECOMMENDATION

The following recommendation will be presented to Council on 26 September 2023 for consideration

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Notes the 2022/23 Preliminary Financial Position as presented in Attachment A to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023, which include:
 - 1.1. Total operating income of \$215.454 million (\$213.446 million estimated in Q3)
 - 1.2. Total operating expenditure (including depreciation) of \$214.187 million (\$213.359 million estimated in Q3)
 - 1.3. An operating surplus of \$1.27 million (\$87,000 estimated in Q3)
 2. Notes results presented are subject to external audit, and therefore are estimates at this stage.
 3. Notes the Capital Works Quarter 4 Review as presented in Attachment A to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023, which include:
 - 3.1. Major Projects expenditure of \$14.19 million (\$17.1 million estimated in Q3)
 - 3.2. New and Upgrades expenditure of \$4.02 million (\$6.5 million estimated in Q3)
 - 3.3. Renewals expenditure of \$30.12 million (\$38.2 million estimated in Q3)
 - 3.4. Capital Program Management expenditure of \$8.95 million (\$9.8 million in Q3)
 - 3.5. Grant funding to support capital expenditure on new/upgraded assets of \$6.7 million (\$11.7 million in Q3).
 4. Notes the Adelaide Central Market Authority Quarter 4 report 2022/23 (Attachment B to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023).
 5. Notes the Adelaide Economic Development Agency Quarter 4 report 2022/23 (Attachment C to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023).
 6. Notes the Kadaltilla / Park Lands Authority Quarter 4 report 2022/23 (Attachment D to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023).
 7. Notes the Brown Hill Keswick Creek Quarter 4 report 2022/23 (Attachment E to Item 4.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 19 September 2023).
 8. Notes that at the end of this Quarter 93% of Projects were capitalised within 10 Weeks, exceeding the 70% target proposed by the Audit and Risk Committee at its 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 City Finance and Governance 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 risk-related 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 <i>Local Government Act (SA) 1999</i> with regard to the development, management and monitoring of the documents within the Strategic Management Framework.
23/24 Budget Allocation	Not as a result of this report.
Proposed 24/25 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.
23/24 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

1. 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. Quarterly reporting supports a focus on maintaining and 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.
2. This report presents progress of achievements and performance against the 2022/23 Business Plan and Budget (BP&B) in the past quarter. Council also receives information on the progress of its subsidiaries.
3. The information and updates in this report and attachments are as at 30 June 2023.
4. The format of this Quarter 4 report is consistent with previous quarterly reports presented in 2022/23. Feedback from the Audit and Risk Committee during 2022/23 has suggested improvements to the report format, including:
 - 4.1. simplified financial reporting
 - 4.2. clarity of LTFP impacts
 - 4.3. clarity of risk and opportunity identification
 - 4.4. reduced narrative relating to services and projects
 - 4.5. use of images, tables and symbols to visually represent performance at a glance
5. A Quarterly Reporting template for 2023/2024 is currently being prepared with a view to implement the feedback for Quarter 1 2023/2024.

Community Services Quarterly Highlights

6. Quarter 4 updates and highlights for Council's 13 community facing services are available in **Attachment A**, from page 8.
7. 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.

Capital Program Summary

8. The Capital Program Plan and Budget summary is available in **Attachment A** (from page 12).
9. The Capital Program is delivered across:
 - 9.1. **Major Projects**: Significant works of a capital nature that are over the prudential limit, multi-year or have significant grant funding.
 - 9.1.1. At the end of Q4, 57% of major projects are on time and on budget or completed.
 - 9.1.2. At the end of Q4 \$2.01 million was committed to continuing Major Projects for 2023/24.
 - 9.2. **New and Upgrade**: Works of a capital nature that are either introducing new assets or significantly upgrading existing assets, usually by extending the asset or increasing the level of service the asset provides.
 - 9.2.1. At the end Q4, 82% of the new and upgrade program are on time and on budget or completed. Several new projects have been created during the quarter to respond to Council decisions or reflect Community needs (see page 20 in **Attachment A**).
 - 9.2.2. At the end of Q4 \$1.36 million was committed to continuing New and Upgrade Projects for 2023/24.
 - 9.3. **Renewals**: Works of a capital nature that are replacing an existing asset like for like or like for modern equivalent.
 - 9.3.1. Progress has been made across all asset classes this quarter. 74% of the 2022/23 renewal program are on time and on budget or completed.
 - 9.3.2. At the end of Q4 \$11.70 million was committed to continuing Renewal Projects for 2023/24.
10. Projects across the Major Projects and New and Upgrade categories have extended their delivery into next year, resulting in carry forwards. An additional \$6.62 million of carry forwards have been identified in Q4, with

a total of \$37.40 million of carry forwards identified for the capital program for the financial year. The identified Q4 carry forwards consist of:

- 10.1. \$4.19 million of Major Projects:
 - 10.1.1. North-South Bikeways - \$1.38 million
 - 10.1.2. City Deal – City Safe Network Upgrade - \$1.21 million
 - 10.1.3. Market to Riverbank - Pitt St - \$0.09 million
 - 10.1.4. Mainstreet Improvements (Hutt St Entry Statement and Melbourne St Improvement) - \$2.40 million
 - 10.1.5. Park 27b – Community Sports Building Redevelopment - \$0.15 million
 - 10.1.6. Paxton's Walk Revitalisation - \$0.49 million
 - 10.1.7. Rymill Lake/Murlawirrapurka (Park 14) Upgrade - \$1.04 million
- 10.2. \$1.73 million of New and Upgrade Projects, including:
 - 10.2.1. Torrens Lake Earth Retaining Structure adjacent University Footbridge – \$0.65 million
 - 10.2.2. Greener City Streets Program - \$0.27 million
 - 10.2.3. Central Market Arcade options - \$0.20 million
 - 10.2.4. Botanic Catchment water course - \$0.07 million
 - 10.2.5. Wakefield Street Renewals & Streetscape Improvements - \$0.05 million
- 10.3. \$0.7 million capital overhead to continue the delivery of the above projects in to 2023/24.

Strategic Projects Summary

11. Each year, Council allocates budget to strategic projects that address immediate and future needs, complementing existing services.
12. 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. In order to achieve this parameter, grant income and/or savings of \$2.6 million were to be achieved against the quarter 3 budget. The preliminary results are a net overspend of \$3.0 million derived from:
 - 12.1. Grant income of \$1.9 million in 2022/23, against Quarter 3 adopted budget of \$5.0 million, and
 - 12.2. Expenditure of \$10.6 million, against Quarter 3 adopted budget of \$10.7 million
13. The Strategic Projects Plan and Budget summary is available in **Attachment A** (from page 39).

Quarterly Planning and Budget Review

Preliminary End of Year Financial Summary

14. The preliminary end of year operating position as at 30 June 2023 is an operating surplus of \$1.27 million, which is \$1.18 million better when compared to the Quarter 3 adopted budget of \$87,000 for this period.
15. A favourable operating income position of \$215.5m against a budget of \$213.4 million due to:
 - 15.1. Increased fees and charges due the progressive recovery of income \$4.1 million, offset by reduced income from the Central Market Arcade during construction (\$1.6m)
 - 15.2. Increase in other income of \$1.4 million due to the recognition of the unwinding of 88 O'Connell Street discounted value \$0.7 million, in addition to the reimbursement of fees from Events and private works \$0.7 million.
 - 15.3. Reduced Grants, Subsidies and Contributions of \$2.1 million due to the timing of the recognition of Resilient Flood Mapping project (\$3.1 million to be incorporated into 23/24), offset by additional recognition of City Deal funding \$1.1 million and early payment of Federal Grant \$0.2 million.
16. An unfavourable operating expenditure position of \$0.8 million primarily due to:
 - 16.1. lower than expected employee costs being \$1.5 million favourable primarily due to vacancies offset by \$1.2 million primarily due to employee cost-related expense;
 - 16.2. higher than expected materials, contracts and other expenses being \$5.5 million unfavourable largely due to expenses including \$3.1 million temporary labour (to backfill some vacancies); additional \$1.1 million City Operations expenses (events, waste, building maintenance and air con maintenance);

other increases including Electricity \$0.6 million, Legal Services \$0.5 million, and WIP write-off \$0.3 million;

- 16.3. favourable sponsorships, contributions and donations of \$0.8 million;
- 16.4. savings in depreciation of \$2.2 million due to the recalculation of useful lives of buildings as well as the impact of a number of capital projects continuing into 2023/24.
17. The annual capital expenditure of \$57.3 million is \$14.4 million lower than the Quarter 3 adopted budget of \$71.6 million. 166 projects reached practical completion in 2022/23.
18. Amounts received for new and upgraded assets of \$6.7 million was \$5.1 million unfavourable due to the timing of the treatment and recognition of grant funding including \$2.7 million City Deal funding (\$1.3 million recognised within operating income) and Paxton's Walk expense of \$0.4 million.
19. As at 30 June 2023, Council had borrowings of \$7.5 million, and \$10.6 million in a short-term deposit related to grant income received in advance.
 - 19.1. The borrowing of \$7.5 million is net of the Future Fund Balance of \$28.2 million
 - 19.2. Total borrowings without the Future Fund would otherwise be \$35.7 million

Assessment of KPIs

20. On 5 February 2021, the then Chief Executive Officer gave an undertaking to provide ongoing capitalisation updates to the Audit and Risk Committee based on key performance indicators (KPIs).
21. At the end of Quarter 4:
 - 21.1. *KPI 1: 70% of Projects capitalised within 10 Weeks* - 147 projects processed from July 2022 to June 2023 with 93% meeting the KPI as at 22 August 2023 as a preliminary result, noting additional detail will be provided once the work in progress (WIP) process has been finalised. Of these, 139 projects achieved practical completion and were processed within 10 weeks with the remaining 9 projects not being finalised within 10 from time of practical completion.
 - 21.2. *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. This KPI can only be determined once the 2022/23 Financial Statements are audited, and will be measured against the estimated operating surplus of \$1.27 million.

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)

ATTACHMENTS

Attachment A – 2022/23 Business Plan and Budget: Quarter 4 update

Attachment B - Adelaide Central Market Authority Quarter 4 update

Attachment C – Adelaide Economic Development Agency Quarter 4 update

Attachment D – Kadaltilla / Park Lands Authority Quarter 4 update

Attachment E – Brown Hill Keswick Creek Quarter 4 update

- END OF REPORT -