

2023/24 BP&B Q2 Progress Report

Tuesday, 20 February 2024

City Finance and Governance
Committee

Strategic Alignment - Our Corporation

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EXECUTIVE SUMMARY

The first Business Plan and Budget 2023/2024 (BP&B) of the newly elected Council focuses on delivering services and projects in a post-COVID-19 budget repair environment. Council has planned over \$100 million of capital expenditure on renewal, new and upgrade or major projects to support the continued development and maintenance of our City. The BP&B 2023/2024 articulates how we will work with partners to support city growth, investment, affordable housing, climate resilience and city-wide improvements, while remaining committed to protecting our Park Lands and greening our city.

This report presents the performance and delivery status of Council's commitments against the BP&B for the second quarter (October to December 2023) and was presented to the Audit and Risk Committee on 16 February 2024. Included with these updates are recommendations for any business plan and budget changes and a summary of the quarterly performance of Council subsidiaries.

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.

Quarterly reports are provided to support Council in monitoring the integrity of Council's financial statements and reporting, as well as its reviewing and overseeing progress on the Business Plan and Budget. This process supports Council's commitment to transparency and accountability.

RECOMMENDATION

The following recommendation will be presented to Council on 27 February 2024 for consideration

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Receives the quarterly update for the Business Plan and 2023/24 Budget as provided in Attachment A to 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 20 February 2024, and notes the highlights of deliverables, status updates and risks and opportunities provided for Projects, Portfolios and Subsidiaries.
2. Approves adjustments for the Business Plan and Budget 2023/24 as identified in this report and reflected in Attachment A to 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 20 February 2024.
3. Approves the budgeted year end Operating Position, which includes:
 - 3.1. Total operating income of \$230.537m

- 3.2. Total operating expenses (including depreciation) of \$228.534m
 - 3.3. An operating surplus of \$2.003m
 4. Approves total capital expenditure of \$110.336m for the 2023/24 year.
 5. Approved total borrowings of \$42.106m projected to 30 June 2024
 6. Notes the year-to-date Operating Position (Financial Performance) for the quarter as presented in Attachment A to 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 20 February 2024, which includes:
 - 6.1. Total operating income of \$118.306m
 - 6.2. Total operating expenses (including depreciation) of \$109.307m
 - 6.3. An operating surplus of \$8.999m
 - 6.4. Total Capital Expenditure of \$40.741m
 - 6.5. Net Cash borrowings position of \$3.076m, with \$5.700m in borrowings, offset by \$2.624m in deposits.
 7. Notes the detailed quarterly updates of Council Subsidiaries as provided as Attachments B, C, D & E to 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 20 February 2024.
 8. Notes the updated Long Term Financial Plan as provided in Attachment A to 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 20 February 2024.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2024-2028 Strategic Plan	Strategic Alignment – Our Corporation
Policy	Not resulting from this report
Consultation	Not resulting from this report
Resource	Not resulting from 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 <i>Local Government Act 1999 (SA)</i> with regard to the development, management and monitoring of Council's Strategic Management Plans
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

Financial Summary

Year to Date Financial Summary

1. The year-to-date operating position as at 31 December 2023 is an operating surplus of \$8.999m, which is \$5.686m better when compared to the adopted budget of \$3.313m for this period.
 - 1.1. Total operating income of \$118.306m.
 - 1.2. Total operating expenditure of \$109.307m.
2. This variance is driven by:
 - 2.1. Income is \$2.598m favourable due to higher fees and charges of \$1.922m as well as other income of \$0.633m mainly generated from private works reimbursements.
 - 2.2. Expenditure is \$3.088m favourable and is largely driven by timing of materials, contracts and other expenses including professional services \$3.744m, consultant fees \$0.519m, and waste services \$0.419m, offset by external contractors (\$2.983m). Resource costs are also \$0.836m favourable (Employee costs and contractual labour).
3. The year-to-date Capital Expenditure as at 31 December 2023 is \$40.741m, which is \$18.977m lower when compared to the adopted budget of \$59.718m for this period. This is largely due to the timing of Central Market Arcade Redevelopment \$5.571m, Rymill Park Lake \$3.949m, and On-Street Parking Meter Replacement \$1.307m.
4. As of 31 December 2023, Council had net borrowings of \$3.076m, with \$5.700m in borrowings, offset by \$2.624m in deposits.

Projected Annual Financial Summary

5. The proposed quarter review continues to deliver an end of year operating surplus of \$2.003m (0.051m higher than the revised budget of \$1.952m):
 - 5.1. Total estimated operating income of \$230.537m.
 - 5.2. Total estimated operating expenditure (including depreciation) of \$228.534m.
6. Total proposed Capital Expenditure for the year is \$110.336m.
7. Grant funding to support capital expenditure on new/upgraded assets of \$1.170 m (\$1.001m reduction to adopted budget of \$2.171 largely due to the retiming of projects into future years).
8. The above changes result in an increase to Council's forecasted borrowings as of 30 June 2024 to \$42.106m from \$40.553m in the adopted BP&B 2023/24.
9. Updated financial statements are provided from page 8 in **Attachment A**.

Adjustments to the Business Plan and Budget

10. Operating Program, which includes Program deliverables and budgets, inclusive of Strategic Projects:
 - 10.1. Adjustments to the services and activities Council delivers total \$0.132m reduction in net expenditure, consisting of:
 - 10.1.1. Permanent changes to the budget of \$0.106m decrease in net expenditure, driven by an increase in fees and charges revenue of \$0.360m, offset by an increase in operating expenditure of \$0.254m.
 - 10.1.2. Temporary (one-off) changes to the budget of \$0.026m decrease in net expenditure, driven by \$0.743m increase in revenue, offset by an increase in operating expenditure of \$0.717m.
 - 10.2. Adjustments to Strategic Projects total \$0.081m increase in net expenditure, consisting of:
 - 10.2.1. New funding (new Strategic Projects) is required for three projects, for a total \$0.273m
 - 10.2.2. Additional funding (a variance increase) is required for three projects, for a total \$0.043m
 - 10.2.3. Decreased funding (a variance decrease) is required for six projects, for a total \$0.235m
 - 10.3. For information on these changes refer to the Portfolio updates from page 20 in **Attachment A**.
11. Capital Program, which includes Major Projects, New and Significant Upgrades and Renewals:

- 11.1. Capital expenditure is proposed to increase to \$110.336m for the year, which is \$0.056m higher than the budget of \$110.280m, due to new grant interest.
 - 11.1.1. Major Projects show a revised expenditure of \$42.068m
 - 11.1.2. New and Upgrade projects show revised expenditure of \$14.115m
 - 11.1.3. Renewals expenditure remains \$54.153m
- 11.2. Adjustments to the Capital Program include:
 - 11.2.1. Re-timing of works of \$4.652m for continuing Major and New and Significant projects into 2024-25 as part of the annual business plan and budgeting process
 - 11.2.2. new grant interest of \$0.056m for Major Projects
 - 11.2.3. Project administrative costs of \$4.437m
 - 11.2.4. Renewal remained unchanged
- 11.3. For information on these changes refer to the Capital Works update from page 14 and the appendix from page 38 in **Attachment A**.

Strategic Project Summary

12. Including adjustments Council has a commitment of \$9.597m (\$5.959m net of grant funding) to deliver 38 Strategic Projects for the rest of 2023/24. As provided in the Portfolio Updates from page 20 of **Attachment A**, at the end of Quarter 2:
 - 12.1. Three projects were completed.
 - 12.2. 31 projects had both timeframe to deliver and budget on track.
 - 12.3. Four projects had both timeframe to deliver and budget at risk and are being managed and may exceed estimated time and adopted budget.
 - 12.4. Two projects have been deferred to a future financial year.
 - 12.5. For information on these changes refer to the Portfolio updates from page 20 in **Attachment A**.

Capital Program summary

13. Including adjustments Council has a commitment of \$110.336m to deliver 406 projects for the rest of 2023/24 as part of its Capital Works Program. As summarised from page 15 and detailed in the Appendix from page 38, of **Attachment A**, at the end of Quarter 2:
 - 13.1. Six New and Significant Upgrade Projects and 28 Renewal Projects, were completed in the quarter.
 - 13.2. Five projects had both the timeframe to deliver and budget at risk and is being managed but may exceed estimated time and adopted budget.
 - 13.3. 11 projects had timeframe to deliver at risk and are being managed but may exceed estimated time.
 - 13.4. Four projects had budget at risk and is being managed and may exceed estimated adopted budget.
 - 13.5. One project had timeframe to deliver off track and budget at risk and is being managed but may exceed estimated adopted budget.
 - 13.6. Two projects have a timeframe to deliver off track.
 - 13.7. Two projects have a budget off track.

Assessment of KPIs

14. KPI 1: 70% of Projects capitalised within 10 Weeks - considered to be on track as 85% of completed projects were capitalised within 10 weeks of practical completion at the end of this Quarter.
15. KPI 2: < 10% Variance between Preliminary Year End and Annual Financial Statement – no update this quarter, as this is an annual measure which is determined at the end of the financial year.

Council Subsidiaries

16. Detailed quarterly updates of Council owned Subsidiaries, the Adelaide Central Market Authority, Adelaide Economic Development Agency and Kadaltilla / Park Lands Authority, are provided in **Attachments B, C & D** respectively.
17. Council is also a member of the Regional Subsidiary, the Brown Hill and Keswick Creek Stormwater Board, whose detailed quarterly update is provided in **Attachment E**.

Year to Date Financial Summary – Adelaide Central Market Authority

18. The year-to-date operating position as at 31 December 2023 is an operating surplus of \$0.125m, which is \$0.331m better when compared to the approved budget of (\$0.206m) deficit for this period.
 - 18.1. Total operating income of \$2.650m.
 - 18.2. Total operating expenditure of \$2.525m.

Year to Date Financial Summary – Adelaide Economic Development Agency

19. The year-to-date operating position as at 31 December 2023 is an operating deficit of \$4.458m, which is \$1.012m better when compared to the adopted budget of \$5.470m deficit for this period.
 - 19.1. Total operating income of \$2.243m.
 - 19.2. Total operating expenditure of \$6.701m.

Year to Date Financial Summary – Kadaltilla / Adelaide Park Lands Authority

20. The year-to-date operating position as at 31 December 2023 is an operating deficit of \$0.101m, which is \$0.025m better when compared to the adopted budget of \$0.126m or this period.
 - 20.1. Total operating income of \$NIL.
 - 20.2. Total operating expenditure of \$0.101m.

Long Term Financial Plan (LTFP)

21. The LTFP provided in **Attachment A** has been updated to reflect the following:
 - 21.1. The starting year for the LTFP 2023/24 has been updated to reflect the proposed Q2 Budget
 - 21.2. Updated assumptions for South Australia Consumer Price Index (SA CPI), Wages Price Index (SA WPI), and Interest Rates based on the December projections provided by Deloitte Access Economics (DAE)
 - 21.3. Impact of Council decisions during 2023/24 which have an impact on the LTFP beyond 2023/24
 - 21.4. Position reached with the State Government for the Adelaide Aquatic Centre outcome.
 22. Consistent with the adopted LTFP, the analysis provided in Attachment A indicates that that the City of Adelaide is currently financially sustainable and can remain so for the forecast period covered by the 2023/24 to 2032/33 LTFP.
 23. The Key Financial Indicators (KFIs) highlight matters where a Council decision is required with regard to future financial sustainability. Long term financial sustainability is therefore subject to ongoing decisions and effort, and in particular (but not limited to):
 - 23.1. Ensuring decisions are consistent with Council's adopted financial principles
 - 23.2. Continued growth in revenue, through both rates and commercial activities, at or above the rate of growth in expenses
 - 23.3. Investment of \$15m per annum for the life of the LTFP on new and upgrade projects
 - 23.4. The future of Rundle UPark
 - 23.5. Successful resolution of external funding for the renewal of the Torrens Weir and Adelaide Bridge
 - 23.6. Ongoing advocacy for reductions in exemptions and mandatory rebates
 - 23.7. Ongoing advocacy for funding assistance for projects of significance, and
 - 23.8. Use of the Future Fund for particular projects and initiatives
 24. A separate report will be presented to Council with recommendations to address the above matters to ensure and maintain future financial sustainability. The report will be presented with sufficient time for Council consideration, prior to adoption of the 2024/25 to 2033/34 LTFP.
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ATTACHMENTS

Attachment A – City of Adelaide 2023/24 Business Plan and Budget: Quarter 2 Progress Report

Attachment B – Adelaide Central Market Authority Quarter 2 update

Attachment C – Adelaide Economic Development Agency Quarter 2 update

Attachment D – Kadaltilla / Park Lands Authority Quarter 2 update

Attachment E – Brown Hill Keswick Creek Quarter 2 update

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