

2023/24 Business Plan & Budget Quarter 3 Update

Tuesday, 21 May 2024

City Finance and Governance Committee

Strategic Alignment - Our Corporation

Program Contact:

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Public

Approving Officer:

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EXECUTIVE SUMMARY

This report presents the performance and delivery status of Council's commitments against the 2023/2024 Business Plan and Budget (BP&B) for the third quarter (January to March 2024) and was provided to the Audit and Risk Committee on 15 May 2024. Included within this report are recommendations for business plan and budget changes, an overview of Portfolio and Project achievements as well as updates and performance for Council subsidiaries.

The year-to-date operating position as at 31 March 2024 is an operating surplus of \$14.507m, which is \$12.421m favourable to the adopted budget of \$2.086m for this period.

The year-to-date Capital Expenditure as at 31 March 2024 is \$60.147m, which is \$25.143m less than the adopted budget of \$85.290m for this period. This is largely due to the timing of the Central Market Arcade Redevelopment, Rymill Park Lake, and On-Street Parking Meter Replacement. Several major projects have been re-timed to future years amounting to \$11.974m.

The year end projected operating position is an operating surplus of \$6.815m (\$4.812m higher than the revised budget of \$2.003m). Total estimated operating income is forecast to be \$234.470m, which is \$3.993m higher than the adopted Quarter 2 budget of \$230.537m. This is mainly due to higher fees and charges of \$2.695m and other income of \$1.253m. Total estimated operating expenditure (including depreciation) is forecast to be \$227.655m, which is \$0.879m lower than the adopted budget of \$228.534m. Reduction in expenditure is due to adjustments to depreciation \$1.991m, with some of this offset by increased expenditure for external contractors of \$1.602m.

The proposed Quarter 3 budget contains an additional capital project of \$4.0m to fund a multi-year program of public realm greening to support an annual net increase in street trees.

Within this period 85% of Strategic Projects and 81% of Capital Projects (excluding renewals) were on track (time and budget). 68% of the renewal budget for the financial year has been expended, with 27 renewal projects completed in the quarter.

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 28 May 2024 for consideration

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL

THAT COUNCIL

1. Receives the City of Adelaide 2023/24 Quarter 3 Progress Report and updated Long Term Financial Plan projections as provided in Attachment A to Item 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 21 May 2024, and notes the highlights of deliverables, status updates and risks and opportunities provided for Projects, Portfolios and Subsidiaries.

2. Approves adjustments for the 2023/24 Business Plan and Budget as identified in this report and reflected in Attachment A to Item 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 21 May 2024.
 3. Notes the year-to-date Operating (Financial Performance) for the quarter ending 31 March 2024, which includes:
 - 3.1. Total operating income of \$176.175m
 - 3.2. Total Operating expenses (including depreciation) of \$161.668M
 - 3.3. An operating surplus of \$14.507m
 - 3.4. Total Capital Expenditure of \$60.147m
 - 3.5. Net cash surplus position of \$20.475m.
 4. Approves the budgeted year end Operating Position, which includes:
 - 4.1. Total operating income of \$234.470m
 - 4.2. Total operating expenses (including depreciation) of \$227.655m
 - 4.3. An operating surplus of \$6.815m.
 5. Approves total capital expenditure of \$99.556m for 2023/24 year.
 6. Approves total borrowings of \$23.593m projected to 30 June 2024.
 7. Receives the Council Subsidiary Quarter 3 updates as provided as Attachments B, C, D and E to Item 7.1 on the Agenda for the meeting of the City Finance and Governance Committee held on 21 May 2024.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2024-2028 Strategic Plan	Strategic Alignment – Our Corporation Quarterly reporting supports Council's <i>financial sustainability</i> objective within the Strategic Plan 2024-2028.
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	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 <i>Local Government Act 1999 (SA)</i> .
Opportunities	Quarterly reporting 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.
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

Adjustments to the 2023/24 Business Plan and Budget

Operating Program

1. Adjustments to Program deliverables and budgets for the quarter are a total of \$4.812m improvement to the operating surplus, consisting of:
 - 1.1. Permanent changes to the budget of \$2.646m increase in the operating surplus, driven by an increase in revenue of \$1.431m and reduction in operating expenditure of \$1.215m
 - 1.2. Temporary (one-off) changes to the budget of \$1.918m increase in operating surplus, driven by \$3.099m increase in revenue, offset by an increase in operating expenditure of \$1.181m.
 - 1.3. Adjustments to Strategic Projects for the quarter are a total of \$0.247m reduction in net expenditure, consisting of:
 - 1.3.1. New funding (new Strategic Projects) is required for one project, for a total of \$0.061m.
 - 1.3.2. Additional funding (a variance increase) is required for five projects, for a total of \$0.916m.
 - 1.3.3. Decreased funding (a variance decrease) is required for fifteen projects, for a total of \$1.224m.
 - 1.3.4. A summary of the status of Strategic Projects is provided further in this report.
2. Further detailed information on these changes is available from page 18 (Portfolio updates) in **Attachment A**.

Capital Program

3. Capital expenditure is proposed to decrease to \$99.556m for the year, which is \$10.780m lower than the budget of \$110.336m, due to carry forwards and refunded grant savings, offset by a new approved project and a new grant interest.
 - 3.1. Major Projects show a revised expenditure of \$28.551m.
 - 3.2. New and Upgrade projects show a revised expenditure of \$16.852m.
 - 3.3. Renewals expenditure remains unchanged at \$54.153m.
4. Adjustments to the Capital Program include:
 - 4.1. \$4.0m towards the “Integrated Climate Strategy – City Public Realm Greening Program” to support a net increase in street trees annually, in line with the Strategic Plan 2024-2028.
 - 4.2. Re-timing of works of \$14.287m for continuing Major and New and Significant projects into future years to be considered as part of the annual business plan and budgeting process.
 - 4.3. New grant interest of \$0.046m for Major Projects.
 - 4.4. Refund of grant savings of \$0.539m.
 - 4.5. Renewal remained unchanged.
 - 4.6. A summary of the status of Capital Projects is provided further in this report.
5. Further detailed information on these changes is available from page 14 (Capital Works update) in **Attachment A**.

Financial Summary

Year to Date

6. The year-to-date operating position as at 31 March 2024 is an operating surplus of \$14.507m which is \$12.421m favourable to the adopted budget of \$2.086m for this period.
 - 6.1. Total operating income of \$176.175m.
 - 6.2. Total operating expenditure of \$161.668m.
7. This variance is driven by:
 - 7.1. Income being \$5.322m favourable due to higher fees and charges of \$2.695m as well as additional other income of \$1.253m.
 - 7.2. Expenditure being \$7.099m favourable and largely driven by timing of materials, contracts and other expenses, including professional services \$5.979m, consultant fees \$0.732m, and waste services

\$0.496m, offset by external contractors (\$3.140m). Resource costs are also \$1.162m favourable (Employee costs and contractual labour).

8. The year-to-date Capital Expenditure as at 31 March 2024 is \$60.147m, which is \$25.143m less than the adopted budget of \$85.290m for this period.
9. As of 31 March 2024, Council had a cash surplus of \$20.475m.

Projected Annual Financial Summary

10. The proposed quarter review continues to deliver an end of year operating surplus of \$6.815m (\$4.812m improvement on the revised budget of \$2.003m):
 - 10.1. Total estimated operating income of \$234.470m.
 - 10.2. Total estimated operating expenditure (including depreciation) of \$227.655m.
11. Operating income increased by \$3.993m from the Quarter 2 adopted budget of \$230.537m to the estimated income of \$234.470m. Of that increase \$2.695m is from higher fees and charges and \$1.253m is from other income.
12. Operating expenditure reduced by \$0.879m from the Quarter 2 adopted budget of \$228.534m to the estimated expenditure of \$227.655. The reduction is mainly due to adjustments to depreciation of \$1.991m, offset by increased expenditure for external contractors of \$1.062m.
13. Total proposed Capital Expenditure for the year is \$99.556m.
14. Grant funding to support capital expenditure on new/upgraded assets of \$1.455m (\$0.285m increase to budget of \$1.170m).
15. The above changes result in a reduction to Council's forecasted borrowings as of 30 June 2024 to \$23.593m, down from \$42.106m forecast in the Quarter 2 report.
16. Updated financial statements are provided from page 8 in **Attachment A**.

Project Delivery Summary

Strategic Projects

17. Including the adjustments outlined in this report, Council has a commitment of \$9.663m (\$5.867m net of grant funding) to deliver 41 Strategic Projects during 2023/24. At the end of this quarter:
 - 17.1. 34 projects have both timeframe to deliver and budget on track.
 - 17.2. Six projects have both timeframe to deliver and budget at risk and are being managed yet may exceed estimated time and adopted budget.
 - 17.3. One project has both timeframe to deliver and budget off track.
 - 17.4. One project has been deferred to a future financial year.
18. For more information on these changes refer to the Portfolio updates from page 18 in **Attachment A**.

Capital Works Program

19. Including the adjustments outlined in this report, Council has a commitment of \$99.556m to deliver 385 projects as part of its Capital Works Program. At the end of this quarter:
 - 19.1. Five New and Significant Upgrade Projects and 34 Renewal Projects were completed in the quarter, bringing the total number of completed projects to 102.
 - 19.2. 68 projects have both timeframe to deliver and budget on track.
 - 19.3. Ten projects have timeframe to deliver at risk and are being managed yet may exceed estimated time.
 - 19.4. Four projects have budget at risk and are being managed yet may exceed the estimated adopted budget.
 - 19.5. Two projects have a timeframe to deliver off track.
 - 19.6. One project has been cancelled.
20. For more information on these changes refer to the Capital Works summary from page 14 in **Attachment A**.

Council Subsidiaries Summary

21. The Adelaide Central Market Authority, Adelaide Economic Development Agency and Kadaltilla / Adelaide Park Lands Authority have provided updates as per **Attachments B, C & D** respectively.
22. The Brown Hill Keswick Creek Stormwater Board (Regional subsidiary), which Council is a member of, has provided an update as per **Attachment E**.

Adelaide Central Market Authority – Year to Date Financial Summary

23. The year-to-date operating position as at 31 March 2024 is an operating surplus of \$0.381m, which is \$0.662m better when compared to the approved budget of (\$0.281m) deficit for this period.
 - 23.1. Total operating income of \$4.176m.
 - 23.2. Total operating expenditure of \$3.795m.

Adelaide Economic Development Agency – Year to Date Financial Summary

24. The year-to-date operating position as at 31 March 2024 is an operating deficit of (\$5.963m), which is \$1.356m better when compared to the adopted budget of (\$7.319m) deficit for this period.
 - 24.1. Total operating income of \$3.347m.
 - 24.2. Total operating expenditure of \$9.310m.
25. The year to date operating deficit is a result of the timing of the City of Adelaide appropriation of funds. All receipts and payments are made through the City of Adelaide. AEDA is a wholly owned subsidiary of Council, and a true-up is completed at the end of the financial year to ensure that the activities of AEDA are appropriately funded.

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

26. The year-to-date operating position as at 31 March 2024 is an operating deficit of (\$0.138m), which is \$0.049m better when compared to the adopted budget of (\$0.187m) for this period.
 - 26.1. Total operating income of \$NIL.
 - 26.2. Total operating expenditure of \$0.138m.

Long Term Financial Plan Update:

27. The Long Term Financial Plan (LTFP) provided in **Attachment A** has been updated to reflect the following:
 - 27.1. The starting year for the LTFP 2023/24 has been updated to reflect the proposed Quarter 3 Budget.
 - 27.2. Year 2 of the LTFP is in line with the draft 2024/25 budget.
 - 27.3. Updated assumptions for South Australia Consumer Price Index (SA CPI), Wages Price Index (SA WPI), and Interest Rates based on the March projections provided by Deloitte Access Economics (DAE).
 - 27.4. Impact of Council decisions during 2023/24 which have an impact on the LTFP beyond 2023/24, including the revised Asset Management Plans (AMP) for Transportation and Urban Elements.
 - 27.5. The LTFP has been updated to reflect the Buildings AMP which is being considered by Council for adoption on 28 May 2024.
 - 27.6. Impact of 2024/25 budget decisions which have an ongoing impact on the LTFP.
28. The analysis of the LTFP, provided in **Attachment A** indicates that the City of Adelaide is currently financially sustainable in the short term, however, the increase in capital expenditure required through the revised Assessment Management Plans for Building, Transportation and Urban Elements, has resulted in forecasts outside of the targets in the medium to long term for the Net Financial Liabilities, Borrowing Ratios and Prudential Limits, and Cash Flow from Operations.
29. 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):
 - 29.1. An increase in revenue sources to fund the increase in Asset Renewals through revised AMPs.
 - 29.2. Ensuring decisions are consistent with Council's adopted financial principles.
 - 29.3. Continued growth in revenue, through both rates and commercial activities, at or above the rate of growth in expenses.

- 29.4. Investment of \$15.0m per annum for the life of the LTFP on new and upgrade projects.
 - 29.5. The future of Rundle UPark.
 - 29.6. Successful resolution of external funding for the renewal of the Torrens Weir and Adelaide Bridge.
 - 29.7. Ongoing advocacy for reductions in rate exemptions and mandatory rate rebates.
 - 29.8. Ongoing advocacy for funding assistance for projects of significance.
 - 29.9. Use of the Future Fund for particular projects and initiatives.
30. 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 2033/24 LTFP.

Assessment of KPIs

KPI 1: 70% of Projects capitalised within 10 weeks

31. 79% of completed projects were capitalised within 10 weeks of practical completion at the end of this quarter.

KPI 2: <10% Variance between Preliminary Year End and Annual Financial Statement

32. No update this quarter, as this is an annual measure which is determined at the end of the financial year.

CEO Undertaking

33. At its meeting on 16 April 2024 an undertaking was given to answer a Council Member question: "What rate increase or cuts would be required in this budget to make Council's debt less than the \$183m forecast in the LTFP, closer to \$0?"
34. The currently adopted LTFP projects borrowings of \$208.751m to the end of 2032/33. A rates revenue increase of 3.2% above CPI on an annual basis from 2025/26 would be required to reduce borrowings to \$1.612m in 2032/33.
35. Incorporating FY 2023/24 Quarter 1-3 amendments, and the 2024/25 draft budget, a revised LTFP model projects borrowings of \$315.193m at the end of 2032/33. A rates revenue increase of 4.5% above CPI on an annual basis from 2025/26 would be required in order to reduce borrowings to \$3.912m in 2032/33.

ATTACHMENTS

Attachment A – City of Adelaide 2023/24 Business Plan and Budget: Quarter 3 Progress Report

Attachment B – Adelaide Central Market Authority Quarter 3 update

Attachment C – Adelaide Economic Development Agency Quarter 3 update

Attachment D – Kadaltilla / Adelaide Park Lands Authority 3 update

Attachment E – Brown Hill Keswick Creek Quarter 3 update

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