

2021/22 Quarterly Business Update Q3

Friday, 17 June 2022

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:

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Public

Approving Officer:

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EXECUTIVE SUMMARY

Council is required to establish plans for the management of its area including the services, facilities and programs that support our city to thrive and our community to live well. The collection of Strategic Plans, Service and Management Plans, Council's budgets, Long Term Financial Plan and Asset Management Plans form Council's Strategic Management Framework, which is monitored to determine Council performance and effectiveness.

As part of monitoring the performance and effectiveness against Council's planned activities, as required under Section 122(1) of the *Local Government Act 1999 (SA)*, Council currently receives the following quarterly reviews:

- Budget Reviews
- Commercial Activities
- Capital Projects
- Adelaide Central Market Authority
- Adelaide Economic Development Agency

This report collates these Quarterly Reviews to improve alignment and integration of Council's monitoring and reporting activities. These Quarterly Reviews are provided as Attachments for Council to note, along with Quarterly Reviews for Council's two other subsidiaries - Kadaltilla / Parklands Authority and Brown Hill Keswick Creek. The report also provides information on future alignment and integration of reporting through the Strategic Management Framework.

Additionally, this report seeks a budget reconsideration for the Events and Festivals Sponsorship Program. Adelaide Economic Development Agency (AEDA) has received an application for Events and Festivals sponsorship from Illuminate Adelaide Foundation to assist in delivery of its Illuminate Adelaide 2022 event program.

Applications for Events and Festivals Sponsorship are now open for events to be held in the 2022/23 financial year and for commitment of sponsorship for 2023/24 and 2024/25 financial years. Applications will close on 27 April 2022 and recommendations for funding support will be brought to Council for consideration in June 2022.

Illuminate Adelaide Foundation have requested consideration of their sponsorship request outside of this current process as the event is scheduled to be held in July 2022.

On 5 February 2021 the Acting Chief Executive Officer gave an undertaking to provide ongoing capitalisation updates to the Audit and Risk Committee based on key performance indicators (KPIs).

This report provides an update on the Capitalisation KPIs.

1. KPI 1 - 85% of Projects capitalised within 10 Weeks (Target above 70%)
 2. KPI 2 - < 10% Variance between Preliminary Year End and Annual Financial Statement.
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RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the third Budget Review for 2021-22 incorporating the Uniform Presentation of Finances as presented in Attachment A to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022, noting that the revised budget consists of:
 - 1.1. Total estimated operating income of \$204.373 million.
 - 1.2. Total estimated operating expenditure (including depreciation) of \$208.737 million.
 - 1.3. An operating deficit of \$4.363 million.
 - 1.4. Capital expenditure of \$60 million.
 - 1.5. Grant funding to support capital expenditure on new/upgraded assets of \$9.2 million.
 - 1.6. Council's borrowings (debt) ceiling of \$24.2 million.
 - 1.7. Offsets across both expenditure and revenue totalling \$4.75 million towards the \$4.75 million savings target.
2. Notes the capitalisation KPIs outlined in Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
3. Notes the balance of approximately \$224,000 within the 2021/22 Events and Festivals Sponsorship program is unspent due to cancellation of events that had previously had funding committed.
4. Notes the funding of \$150,000 to be allocated from the 2021/22 Events and Festivals Sponsorship budget to Illuminate Adelaide Foundation for the Illuminate Adelaide 2022 event to be held 1 to 31 July 2022 inclusive.
5. Notes the Capital Works Quarter 3 Review as presented in Attachment B to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
6. Notes the Commercial Operations Quarter 3 Review as presented in Attachment C to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
7. Notes the Adelaide Economic Development Agency Quarter 3 Review as provided in Attachment D to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
8. Notes the Adelaide Central Market Authority Quarter 3 Review as provided in Attachment E to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.
9. Notes the Kadaltilla / Park Lands Authority Quarter 3 Review as provided in Attachment F. to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022
10. Notes the Brown Hill Keswick Creek Quarter 3 Review as provided in Attachment G to Item 5.1 on the Agenda for the meeting of the Audit and Risk Committee held on 17 June 2022.

IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities
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	<p>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 the effective performance of services, business activities, delivery of projects and the execution of Subsidiary responsibilities.</p> <p>The financial indicators have been included in Attachment A to support Council's strategic decision making by comparing the financial sustainability, asset sustainability, liquidity and capacity to respond in the context of the Long-Term Financial Plan.</p>
Opportunities	<p>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 the documents within the Strategic Management Framework.</p> <p>The third budget review meets Council's obligations under the <i>Local Government Act 1999 (SA) and Local Government (Financial Management) Regulations 2011</i>.</p>
21/22 Budget Allocation	Adjustments to the 2021-22 Budget and the year-to-date performance to end of March 2022, are detailed throughout the Report and Attachment A .
Proposed 22/23 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.
21/22 Budget Reconsideration (if applicable)	Adjustments to the 2021-22 Budget and the year-to-date performance to end of March 2022, are detailed throughout the Report and Attachment A .
Ongoing Costs (eg maintenance cost)	Not as a result of this report.
Other Funding Sources	Not as a result of this report.

DISCUSSION

Quarterly Budget Review 3

1. In accordance with Regulation 9 of the *Local Government (Financial Management) Regulations 2011* - 'Council must reconsider its budget at least two times throughout the year, between 30 September and 31 May, restating the impact in the Uniform Presentation of Finances. In addition, between the 30 November and 15 March, Council must be provided with a revised forecast for the relevant financial year compared with estimates set out in the budget presented in a manner consistent with the Model Financial Statements.'
2. The third major budget reconsideration by Council for the 2021/22 financial year is provided as **Attachment A**. The purpose of this review is to adjust the budget for any changes in circumstances and priorities since the adoption of the Budget in June 2021 and present the year-to-date financial performance for the nine months ending 31 March 2022.
3. Following endorsement of this Budget Review, all changes will be incorporated into the revised end of month reporting documents for 2021/22. The impacts of the proposed changes on the operating and capital budgets are presented in the revised Uniform Presentation of Finances Statement, included in **Attachment A**.
4. The budget review recommends Council to adopt a revised budget consisting of:
 - 4.1. An operating deficit of \$4.363 million.
 - 4.2. Capital expenditure of \$60 million.
 - 4.3. Grant funding to support capital expenditure on new/upgraded assets of \$9.2 million.
 - 4.4. Council's borrowings (debt) ceiling of \$24.2 million.
 - 4.5. Offsets across both expenditure and revenue totalling \$4.75 million towards the \$4.75 million savings target.
5. Council endorsed a Business Plan and Budget in June 2021 with an operating result of \$37,000. Included in this was a budget repair item of \$4.75m to ensure a balanced budget was achieved. In addition to the \$20m in operational savings realised in 2021/22, this budget review also includes the full realisation of this \$4.75m. This is a significant achievement and testament to strong financial management.
6. The recognition of a deficit budget at this time is due to the impact of depreciation which has created a significant increase in depreciation expense. This is as a result of revaluations conducted during the year.
7. This impact is included in the budget review as a means of early communication. However, there is further work required to validate this variance which will be conducted ready for review by external auditors as a part of the preparation of annual financial statements.
8. The summary of adjustments made for budget review 3, along with the financial statements and the Long-Term Financial Plan are provided in the appendices to **Attachment A**. These show the forecast operating surplus/(deficit), funding requirements and borrowings in 2021-22 and future years based on the proposed re-timing adjustments.
9. The Financial indicators have been included in **Attachment A** to support Council's strategic decision making by comparing the financial sustainability, asset sustainability, liquidity and capacity to respond in the context of the Long Term Financial Plan.
10. Council's Long Term Financial Plan has been updated to reflect the re-timing adjustments for projects and infrastructure works from 2021-22 financial year, along with revised estimates for interest expense and borrowings.

KPI 1 - 85% of Projects capitalised within 10 Weeks

11. 54 projects processed from July 2021 to March 2022 with 42 meeting the KPI (78%).
12. Of these, 42 projects achieved practical completion and were processed within 10 weeks with a remaining 27 projects not being finalised within 10 from time of practical completion. Should we factor these projects into calculation of the KPI then the achievement would be 61%.
13. 22% of projects that failed to meet the KPI were fully processed within a week of missing their KPIs (i.e. within 11 weeks of Practical Completion). These project include: Adelaide Bridge – Minor Works, Mansfield St (Gover to Tynte St) Road Renewal, Tynte St (Wellington Sq to Mansfield St) Road Renewal, Gladstone St (Carrington St to Dead End) Road Renewal, King William Road N-bound (Pennington Tce to Kermode St) Road Renewal and King William Road S-bound (Brougham PI to Kermode St) Road Renewal

14. 26% of projects that failed to meet the KPI are Major Projects or Multi-Asset Projects. Due to their complex nature it is not often practical to meet the 10-week target as there have been challenges in receiving the required information from contractors to enable capitalisation i.e. Final claims and payments were received late or As-Constructed Drawings were issued late. These projects include: Moonta Street, Jeffcott Stage 2, Whitmore Square, Bikeways – Brougham Gardens, Bikeways – War Memorial Drive Wombat Crossing, Tavistock Lane and Gawler Place Development Defect Rectification Works.
15. 19% of projects of failed to meet the KPI are ACMA Carry Forward Projects delivered early in the year. ACMA projects were originally out of scope but have been fully onboarded into the system since Q2 (schedule, project status reporting) so they are now included in our WIP monitoring.
16. Infrastructure, Finance and the Project Management Office will mitigate the challenges of not completing within the 10-week timeframe on a project by project basis and will continue to identify opportunities to improve the process and enable efficiency. Together with the Procurement team we will work with our contractors to receive information in a timely manner and escalate where there are challenges.

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

17. The final KPI can only be determined once we have the final Annual Financial Statement.
18. Currently the budget for capital write off is \$1.5M which has not been adjusted this year. The current provision is \$4.7m.
19. Given the improvements in our capital planning and budgeting, we have proposed for 2022-23 that no further provision will be made for capital delivery moving forward.
20. Capital management and improvements to the finance system will ensure we accurately budget for write off components as operational budgets in the initial stages rather than relying on a write off provision to correct the project delivery after the fact.
21. The Capital Works Quarterly reviews provides Council with a status update on delivery of the approved capital program of works.
22. Historically Council has received capital budget updates via quarterly financial reporting. This has now been expanded to include more detailed reporting regarding the delivery of the capital program that considers delivery in broader terms than only financial implications.
23. The preparation of the Capital Works Status Report (**Attachment B**) was undertaken in to provide further qualitative and quantitative information to Council with regards to delivery.
24. The report is broken up into the three categories by which capital delivery is managed, being:
 - 12.1. Major Projects – Significant works of a capital nature that are over the prudential limit, multi-year or have significant grant funding being administered via a contractual deed.
 - 12.2. New and Upgrade Projects - 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.
 - 12.3. Renewals - Works of a capital nature that are replacing an existing asset like for like or like for modern equivalent.
25. Each category commences with detail about financial movement to understand the budget impact and summary of funds received, expended and committed.
26. Secondary to the financial movement, each section includes a status update on delivery of the works. This is detailed by project for Major Projects, by service for New and Upgrade, and by asset category for Renewals.
27. Subject to any feedback from Council about this report, it will be brought to Council each quarter to ensure transparency of financial movement and delivery of the capital works program with Council and the community.

Quarterly Commercial Operations Review 3

28. The Commercial Operations Quarterly review within **Attachment C** provides Council with a status update on the operations and expenditure of key revenue generating operations such as Parking, the Aquatic Centre, North Adelaide Golf Course, Adelaide Town Hall and Property services. This report provides an update to Council for the period 1 January to 31 March 2022. The financial considerations are provided within the Budget Review **Attachment A**.

Quarterly AEDA Review 3

29. In accordance with their Charter, the AEDA Quarter 3 Review, included as **Attachment D**, provides a quarterly update to Council on progress against milestones and performance indicators as outlined in the AEDA Business Plan and Budget for 2021-22.
30. This report provides an update to Council for the period 1 January to 31 March 2022.
31. The Charter states:
“Within 14 days of the end of each quarter the Agency must submit to the Council’s CEO a quarterly report on progress against the strategic milestones and key performance indicators as outlined in the Strategic Plan and the Annual Business Plan and Budget.”
32. Key highlights within the report include:
 - 32.1. Stakeholder consultation on the Draft 2022-23 Business Plan and Budget priorities
 - 32.2. Launch of \$30 Eats
 - 32.3. Lunar New Year and Groundswell in Rundle Mall
 - 32.4. Launch of Shopfront Improvement Grant
 - 32.5. Launch of ADLocal digital campaign
 - 32.6. Successful Summer partnerships with RAA Travel and Expedia Group
 - 32.7. Events support
33. Forward Activities and / or services:
 - 33.1. Hosting the inaugural AEDA Summit on 25 May 2022.
 - 33.2. Promotion to encourage redemption of \$30 Eats vouchers by 30 May 2022.
 - 33.3. Progression on Reignite Adelaide 2.0 initiatives including Shopfront Improvement Grant and an intrastate advertising campaign promoting the city.
 - 33.4. Launch of the Digital Marketplace to support small to medium size City of Adelaide businesses by providing a platform for consumers to buy directly online.
34. Quarter 3 Financial Position
 - 34.1. AEDA’s financial position remains unchanged from the original 2021-22 budget.

Quarterly ACMA Review 3

35. In accordance with the Charter of the Adelaide Central Market Authority (ACMA), the ACMA Quarter 3 Review, included as **Attachment E**, provides a quarterly update to Council on progress against milestones and performance indicators as outlined in the ACMA Business Plan and Budget for 2021-22.
36. This report provides an update to Council for the period 1 January to 31 March 2022. It is important to note that **Attachment E** is provided as a preliminary document until it has been considered and approved by the ACMA Board.
37. The ACMA Charter states:
‘Within 14 business days of the end of each quarter the Authority must submit to the Council’s CEO a quarterly report on progress against the strategic milestones and key performance indicators outlined in the Strategic Plan and the Annual Business Plan and Budget.’
38. Key highlights within the report include:
 - 38.1. Expanded Home Delivery Online platform assisting trader sales
 - 38.2. Launch of Market Life short film capturing the special networks of traders and sense of nostalgia of the Market
 - 38.3. ACMA retail support to lessees including independent retail consulting and covid rebound sessions.
 - 38.4. Launched Two on Tuesday campaign with two hours free parking and promotion of trader specials.
39. Forward Activities and / or services:
 - 39.1. New stores Saudade & Mr. Cheese scheduled to open
 - 39.2. Deliver marketing, activities and operational programs.

- 39.3. Deliver marketing material and overarching communications strategy for One Market (Central Market Arcade Development.)
40. Quarter 3 Financial Position
- 40.1. ACMA's financial position is \$70k favourable from the original 2021-22 budget.

Quarterly Kadaltilla / Park Lands Authority Review 3

41. Kadaltilla / Park Lands Authority (Kadaltilla) is the principal advisory body to both the City of Adelaide and the State Government on the protection, management, enhancement, and promotion of the Adelaide Park Lands. Kadaltilla is established pursuant to section 5 of the *Adelaide Park Lands Act 2005 (SA)* and operates as a subsidiary of the City of Adelaide, pursuant to section 42 of the *Local Government Act 1999 (SA)*. Kadaltilla acts in accordance with its Charter and as set out in the *Adelaide Park Lands Act 2005 (SA)*.
42. Key updates have been provided in **Attachment F**.

Quarterly Brown Hill Keswick Creek Review 3

43. The Cities of Adelaide, Burnside, Mitcham, Unley and West Torrens have worked collaboratively over several years via a Section 43 Committee Under the *Local Government Act 1999 (SA)* to develop a Stormwater Management Plan (SMP) aimed at mitigating flood risk within the catchment, sharing a vision of becoming water sensitive cities.
44. Key updates have been provided in **Attachment G**.

Future Quarterly Reporting

45. With the integrated approach provided in this report to address Council's monitoring obligations under Section 122 of the *Local Government Act 1999 (SA)*, there is opportunity to further streamline quarterly reporting with the 22/23 Business Plan and Budget. Reporting regularly on performance and achievement against Council's planned activities is an essential element of transparent, accountable and responsible public administration.
46. For the past 2 years, Council has worked towards developing Service Delivery Plans, which articulate the activities and deliverables of 13 community facing services and eight corporate services. The Service Delivery Plans have been integrated into the Business Plan and Budget process, enabling Council to identify the vision, priorities, services, business activities and budget in a more detailed and contextualised manner. This approach offers the opportunity to improve our reporting approach on the delivery of the Business Plan and Budget into the future.
47. To further align and integrate reporting, the 22/23 year will be focused on Business Plan and Budget reporting based on the service delivery plan structure. The full cost attribution model of the Service Delivery Plans will streamline quarterly reporting in consistent manner that creates regular monitoring and oversight for Council on services, activities and projects. The intention is to improve transparency, accountability and access to Council's performance information, tracking how we are delivering what we have committed to throughout the year, and making recommendations and adjustments based on insights, risks, opportunities, and performance. We will continue to utilise assessment and reporting process iteratively to inform service improvement.

Events and Festivals Sponsorship Approval

48. AEDA has received an application for Events and Festivals sponsorship from Illuminate Adelaide Foundation (Illuminate) to assist in delivery of its Illuminate Adelaide 2022 event program to be held 1 to 31 July 2022 inclusive.
49. Applications for Events and Festivals Sponsorship (EFS) for events to be held in the 2022/23 financial year and commitment of sponsorship for 2023/24 and 2024/25 financial years are now open and will close on 27 April 2022. Recommendations for funding support will be brought to Council for consideration in June 2022.
50. Illuminate have requested funding of \$150,000 to be used for three, free, specific City Lights installations – 'View from the Moon' in Hindley Street West, 'Halo' in the East End and 'I Love Adelaide' in the North Precinct. Detailed information on the assessed application can be found at [Link 1](#).
51. The inaugural Illuminate Adelaide event in 2021 included:
- 51.1. The free City Lights installations at various locations within the CBD including Rundle Mall
- 51.2. Van Gogh Alive exhibition held on the Eighty Eight O'Connell site in North Adelaide
- 51.3. Light Cycles event in Botanic Park and Light Creature at the Adelaide Zoo.

52. The event attracted over 500,000 visits with an economic value to the city of \$30.9m, provided employment opportunities for over 400 artists and a further 2,626 job opportunities across a wide range of roles working across creative, future-facing and supporting industries.
53. Funding of approximately \$224,000 is currently available within the 2021/22 Events and Festivals Sponsorship Program due to a number of events that had been allocated funding but were cancelled including 2021 Mitsubishi Motors Australian International 3 Day Event, 2021 Carols by Candlelight and 2022 Adelaide Food Fringe.
54. This request is outside of the EFS guidelines that requires events to be held within the financial year that the funding is provided for, however approval of funding outside of the current process will enable commitment to contractual requirements and maximise promotion of the sponsorship provided by the City of Adelaide and AEDA.
55. Going forward, Illuminate will submit a separate application seeking a forward commitment for sponsorship funding from the 2023/24 and 2024/25 financial years. This application will be considered with all other applications for EFS funding and recommendations for funding will be provided to Council for consideration at its June meeting.
56. If Council approves the reallocation of funding to support this event, Illuminate will enter into a funding agreement with AEDA detailing benefits in return for the sponsorship investment as well as mutually agreed Key Performance Indicators.

DATA AND SUPPORTING INFORMATION

Link 1 – Assessment of Illuminate Adelaide 2022 funding request

ATTACHMENTS

Attachment A – 2021-22 Budget Quarter 3 Review

Attachment B – 2021-22 Capital Works Quarter 3 Review

Attachment C – 2021-22 Commercial Operations Quarter 3 Review

Attachment D – 2021-22 Preliminary AEDA Quarter 3 Review

Attachment E – 2021-22 Preliminary ACMA Quarter 3 Review

Attachment F – 2021-22 Kadaltilla / Park Lands Authority Quarterly Review 3

Attachment G – 2021-22 Brown Hill Keswick Creek Quarterly Review 3

- END OF REPORT -