

2022-2023 Q1 Business Update

Friday, 28 October 2022

Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:

Sonjoy Ghosh, Acting Manager,
Finance and Procurement

Public

Approving Officer:

Amanda McIlroy - Chief
Operating Officer

EXECUTIVE SUMMARY

As 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*, Council receives quarterly updates on budget reviews, service performance, project status updates and subsidiary reports. The reports are also provided to the Audit and Risk Committee in accordance with its Terms of Reference and their 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.

A purposeful focus on steadily improving Council's financial position, paired with a commitment to community safety, growth, and prosperity, has continued to see our organisation and our city emerging stronger from the pandemic. This is supported by Council's ongoing focus on ensuring a financially sustainable approach to asset renewals, growing and diversifying revenue streams and ensuring maximum return on our investments,

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). This report provides an update on the Capitalisation KPIs, which are as follows:

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

Under section 143 of the *Local Government Act 1999 (SA)* (the Act) Council may write off any debts owed to the Council if there are no reasonable prospects to recover the funds or the costs of recovery are likely to equal or exceed the amount owed. Under section 143 (2) of the Act, Council has determined that debt write off over \$10,000 requires Council approval, with any write off under \$10,000 delegated to the CEO.

Following a detailed review of outstanding debts, this report recommends writing off debts equating to \$800,074 for those debts that exceed the \$10,000 delegation threshold. It has been determined that recovery is highly unlikely or cost prohibitive.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE

1. Notes the first Budget Review for 2022-23 incorporating the Uniform Presentation of Finances as presented in Attachment A to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022, noting the revised budget consists of:
 - 1.1. Total estimated operating income of \$213.446 million
 - 1.2. Total estimated operating expenditure (including depreciation) of \$213.359 million
 - 1.3. An operating surplus of \$87,000
 - 1.4. Capital expenditure for:
 - 1.4.1. Major Projects revised expenditure of \$38.9 million

- 1.4.2. New and Upgrades revised expenditure of \$13.6 million
- 1.4.3. Renewals revised expenditure of \$44.4 million
- 1.4.4. Total Carry overs of \$7.54 million
- 1.4.5. Other adjustments totalling (\$1.39 million)
- 1.5. Grant funding to support capital expenditure on new/upgraded assets of \$22.6 million
- 1.6. Council's borrowings (debt) ceiling of \$28 million
- 1.7. Net offsets across both expenditure and revenue totalling \$0.8 million towards the \$4.83 million savings target set by Council.
- 2. Notes the capitalisation KPIs outlined in Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 3. Notes that the Long Term Financial Plan assumptions will be included in the update provided to Council as a part of the formal Q1 Budget Review on 13 December 2022.
- 4. Notes the Capital Works Quarter 1 Review 2022-23 as presented in Attachment B to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 5. Notes the Commercial Operations Quarter 1 Review 2022-23 as provided in Attachment C to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 6. Notes the Adelaide Economic Development Agency Quarter 1 Review 2022-23 as provided in Attachment D to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 7. Notes the Adelaide Central Market Authority Quarter 1 Review 2022-23 as provided in Attachment E to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 8. Notes the Kadaltilla / Park Lands Authority Quarter 1 Review 2022-23 as provided in Attachment F to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 9. Notes the Brown Hill Keswick Creek Quarter 1 Review 2022-23 as provided in Attachment G to Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022.
- 10. Notes the recommendation to Council on Bad Debt Write Off included in paragraphs 28 and 29 of Item 6.1 on the Agenda for the meeting of the Audit and Risk Committee held on 28 October 2022..

IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities Regular reporting to the Audit and Risk Committee of key financial issues is a part of 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 the effective performance of services, business activities, delivery of projects and the execution of subsidiary responsibilities.
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 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

Quarterly Budget Review 1

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 first budget reconsideration by Council for the 2022/23 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 2022 and present the year-to-date financial performance for the three months ending 30 September 2022.
3. Following Council endorsement of this Budget Review at the meeting on 13 December 2022, all changes will be incorporated into the revised end of month reporting documents for 2022/23. 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 revised budget for Council adoption on 13 December 2022 consists of:
 - 4.1. An operating surplus of \$87,000
 - 4.2. Capital expenditure of:
 - 4.2.1. Major Projects revised expenditure of \$38.9 million
 - 4.2.2. New and Upgrades revised expenditure of \$13.6 million
 - 4.2.3. Renewals revised expenditure of \$44.4 million
 - 4.2.4. Total Carry overs of \$7.54 million
 - 4.2.5. Other adjustments totalling (\$1.39 million)
 - 4.3. Grant funding to support capital expenditure on new/upgraded assets of \$22.6 million
 - 4.4. Council's borrowings (debt) ceiling of \$28 million
 - 4.5. Net offsets across both expenditure and revenue totalling \$0.8 million towards the \$4.83 million savings target.
5. The summary of adjustments made for the Q1 Budget Review, 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 2022-23 and future years based on the proposed adjustments.
6. 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.
7. Council's Long Term Financial Plan has been updated to reflect the adjustments in this budget review along with revised estimates for interest expense and borrowings.

Long Term Financial Plan (LTFP) – Proposed Assumptions Update

8. At the meeting of the Audit and Risk Committee on 4 February 2022, an undertaking was given to include information on the impacts of CPI and increased interest rates in the quarterly LTFP updates.
9. As detailed in the LTFP, Deloitte's Access Economics data is used as a source for forecasted rates 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 which increases the relevance to the LTFP.
10. We propose that the assumptions used in preparing the adopted LTFP are updated with the latest data in the September 2022 release from Deloitte.

11. The detail of this amendment is provided in the table below:

Rate %	2022-23 Budget	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
CPI – SA – Adopted LTFP	1.80%	2.34%	2.38%	2.38%	2.31%	2.41%	2.47%	2.32%	2.36%	2.29%
CPI – SA – Sept 2022	No change – will be managed via Budget Review (BR)									
WPI – SA – Adopted LTFP	2.00%	2.80%	2.71%	2.62%	2.70%	2.69%	2.97%	3.15%	3.21%	3.32%
WPI – SA – Sept 2022	No change – will be managed via BR									
Interest – Adopted LTFP	1.68%	2.23%	2.37%	2.46%	2.66%	2.78%	2.71%	2.48%	2.25%	2.10%
Interest – Sept 2022	No change – will be managed via BR									

Financial Capitalisation Update

12. KPI 1 – Target above 70% of Projects capitalised within 10 Weeks

12.1. 9 projects processed from July 2022 to September 2022 with 100% meeting the KPI.

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

13.1. Preliminary Year End reported an end of year position of \$87,000. The final position in the Annual Financial Statements was \$977,000, a movement of \$890,000.

13.2. The write off expense of \$1.2m is within budget of \$1.5m and retains a total provision of \$4.1m for capital projects currently in delivery.

13.3. The improvements implemented in our processes throughout the year have ensured that we have processed any write-off elements of the capital projects within the current financial year.

Consultants Spend

14. From time to time Council engages with consultants to undertake activities which may require the use of people with specific technical expertise and skills.

15. On 13 April 2021, Council resolved:

‘...that all engagements of consultants that are of a value greater than \$10,000 are recorded and provided to the Audit Committee quarterly, and that the report will include for each record:

a. The name of the consultant

b. The dollar value of the contracted works

c. The purpose for their engagement

d. The team or department the engaged consultant was assisting

e. The contracts approving officer

f. Whether the work was openly tendered and/or whether competing quotes for the work were sought, and if so, how many.’

16. Consultant engagement contracts are a particular defined type of procurement contract, there was no contracted consultants expenditure in the first quarter of the 22-23 financial year.

17. It is worth noting that the procurement policy has a threshold of \$150,000 for procurement to be offered in the open market. It is therefore expected that some consultants may be engaged outside of contract.
18. After receiving the following undertaking at the meeting of the Audit and Risk Committee on 4 February 2022, a review was undertaken to review our process for engaging and consultants to ensure effective use of public funds and value add to deliver the best outcome to Council and the community.
Provide to the next Audit and Risk Committee meeting a recommendation to be put to Council recommending a different reporting framework in relation to the consultant's report where items are reported by exception eg beyond current delegations or where a proper procurement process has not been used.
19. This review has led to the development of a Consultants Framework, endorsed by Executive, which will ensure that any expenditure on consultants is managed through a consistent and documented framework.
20. The Consultants Framework will generate improvements to reporting, with the data and insights to inform procurement efficiencies, supporting the achievement of strategic outcomes and delivering value for money.

Proposed Debt Write off

21. Under Section 143 of the *Local Government Act (SA) 1999* (the Act) Council may write off any debts owed to the Council if there are no reasonable prospects to recover the funds or the costs of recovery are likely to equal or exceed the amount owed. Under section 143 (2) of the Act, Council has determined that debt write off over \$10,000 requires Council approval, with any write off under \$10,000 delegated to the CEO.
22. A detailed review of all outstanding debts has been conducted. The review considered varying factors such as, internal debt recovery actions, successful collections made over time, age of the debt, value of the debt, nature of the debt, market conditions and individual circumstances that contributed to the debt.
23. In accordance with accounting requirements, all debts in excess of 150 days are provided for each year on the assumption that after this time likelihood of recovery is significantly reduced and the likelihood of writing them off as bad debts becomes higher and more probable. As at 30 June 2022, the provision for doubtful debts was \$1.3m.
24. In accordance with the debt collection policy, recovery efforts for debts owing to Council have included various methods of ongoing contact, creation of payment arrangements, referral to external debt collectors and legal action.
25. Council adopted the updated Debt Collection policy at its meeting on 9 August 2022. This accounts for improvements made in the collections process to limit Council's exposure to debt write offs, including promotion of early/upfront payments in the case of events and hire and more interventions earlier in the debt collection process to avoid instances of non-recovery.
26. In accordance with requirements of section 143 of the Act, records have been maintained of the recovery actions taken to date to ensure all reasonable attempts have been made to recover the debt and the likelihood or cost of recovery is significant in that it outweighs further recovery action.
27. Given the personal nature of detailed debt information, this report provides a high level summary.
28. Following review and extensive recovery efforts, it will be recommended to Council that debt write offs should proceed for the amount of \$800,074.
29. Below is a summary of the debts by category and total value.

Debt Write Off Category	Total Value
CMA debtors – 9 Debtors	558,795
Debtors in Liquidation – 3 Debtors	207,069
Other – Legally Cost prohibitive – 1 Debtor	34,210
Total	800,074

Central Market Arcade Debtors

30. There are various factors resulting in debts for Central Market Arcade (CMA) which include the significant impact of mandated COVID-19 health and safety restrictions which resulted in reduced. While various hardship provisions were offered, including rent relief, abatement and payment arrangements, there are certain payers that were unable to manage the payments.
31. To ensure continuity of the vibrancy of the market, there was a conscious decision to keep tenants in occupancy despite poor payment history, rather than creating significantly greater impacts from vacancies that would have arisen if the leases were cancelled, and tenants evicted.

Debtors in Liquidation

32. These debtors have undergone years of legal action and resulted in liquidation. We have been advised by administrators that return of funds as an unsecured creditor will not generate a return.

Other Debtors

33. Only one debtor is proposed for write off where significant action has been taken to recover the property debt. External legal action has not been successful. We understand that this debtor has relocated to regional area and liquidated all assets. As such the ability to recover is limited and highly unlikely without significant cost and no guarantee of return.
34. Overall, debt write offs are a last resort for all Council debt and a recommendation is only made after fair and measured consideration and effort to recover.

Quarterly Capital Works Status Report Review 1

35. The Capital Works Status Quarterly review within **Attachment B** provides a status update on the Major Projects, New and Upgraded Projects and Project Renewals. This report provides an update for the period 1 July to 30 September 2022.

Quarterly Commercial Operations Review 1

36. The Commercial Operations Quarterly review within **Attachment C** provides 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 for the period 1 July to 30 September 2022.

Quarterly AEDA Review 1

37. In accordance with their Charter, the Adelaide Economic Development Agency (AEDA) Quarter 1 Review, included as **Attachment D**, provides a quarterly update on progress against milestones and performance indicators as outlined in the AEDA Business Plan and Budget for 22/23.
38. This report provides an update for the period 1 July to 30 September 2022.
39. 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."
40. AEDA Quarter 1 Financial Position
 - 40.1. AEDA's financial position remains unchanged from the original 2022/23 budget.

Quarterly ACMA Review 1

41. In accordance with the Charter of the Adelaide Central Market Authority (ACMA), the ACMA Quarter 1 Review, included as **Attachment E**, provides a quarterly update on progress against milestones and performance indicators as outlined in the ACMA Business Plan and Budget for 22/23.
42. This report provides an update for the period 1 July to 30 September 2022.
43. The ACMA Charter states: 'Within 14 business days of the end of each quarter the Authority must submit to 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.'
44. ACMA Quarter 1 Financial Position
 - 44.1. ACMA's financial position remains unchanged from the original 2022/23 budget.

Quarterly Kadaltilla / Park Lands Authority Review 1

45. The Adelaide Park Lands Authority (known as Kadaltilla / Park Lands Authority) is established pursuant to section 5 of the *Adelaide Park Lands Act 2005 (SA)* (APL Act) and operates as a subsidiary of the City of Adelaide, pursuant to section 42 of the Act. Kadaltilla acts in accordance with its Charter and as set out in the APL Act.
46. Key updates are provided in **Attachment F**.

Quarterly Brown Hill Keswick Creek Review 1

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

Future Quarterly Reporting

49. With the integrated approach provided in this report to address Council's monitoring obligations under Section 122 of the Act, there is opportunity to further streamline quarterly reporting of the 22/23 Business Plan and Budget. Regular reporting on organisational performance and achievement against Council's planned activities is an essential element of transparent, accountable and responsible public administration.
50. For the past two years, Council has worked towards developing Service Delivery Plans, which show 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 understand the vision, priorities, services, business activities and budget in a more detailed and contextualised manner. This approach provides the opportunity to improve our reporting on the delivery of the Business Plan and Budget.
51. 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 a 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 on our commitments 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.

ATTACHMENTS

Attachment A – Budget Review 1 2022-23

Attachment B – Capital Works Quarter 1 Review 2022-23

Attachment C – Commercial Operations Quarter 1 Review 2022-23

Attachment D – Adelaide Economic Development Agency Quarter 1 Review 2022-23

Attachment E – Adelaide Central Market Authority Quarter 1 Review 2022-23

Attachment F – Kadaltilla / Parklands Authority Quarter 1 Review 2022-23

Attachment G – Brown Hill Keswick Creek Quarter 1 Review 2022-23

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