

Strategic Alignment - Enabling Priorities

Public

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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 1999 (SA)* (the Act), Council receive a quarterly report on budget reviews, service performance, project status updates and subsidiary reports. These 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 overseeing Council's integrated business planning process. The reporting framework supports Council's commitment to transparency and accountability.

The Audit and Risk Committee met in October 2022 and considered the Quarter 1 Business Update 2022-2023 report and relevant attachments as provided in this report to Council. The Audit and Risk Committee has provided feedback over the past 6 months with a view to further integrating our quarterly reporting approach with a focus on transparency and clarity. A revised quarterly reporting approach will be presented to Council in early 2023, based on the feedback of the Committee and Council and informed by research of best practice. Feedback from this term of Council is also encouraged to ensure clarity and probity in Council decision making.

Under section 143 of the *Local Government Act 1999 (SA)* 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 Chief Executive Officer (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. For these debts, it has been determined that there are no reasonable prospects to recover the funds, or the costs of recovery are likely to exceed the amount owed.

Overall, debt write offs are a last resort for Council and a recommendation is only made after fair and measured consideration and effort to recover.

RECOMMENDATION

THAT COUNCIL

1. Approves the first Budget Review for 2022-23 incorporating the Uniform Presentation of Finances as presented in Attachment A to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022, noting that 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 Carryovers for \$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. New offsets across both expenditure and revenue totalling \$0.8 million towards the \$4.83 million savings target set by Council.
 2. Approves debt detailed in this report, totalling \$800,074 to be written off in accordance with section 143 of the *Local Government Act 1999 (SA)*.
 3. Notes the Capital Works Quarter 1 Review 2022-23 as presented in Attachment B to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
 4. Notes the Commercial Operations Quarter 1 Review 2022-23 as provided in Attachment C to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
 5. Notes the Adelaide Economic Development Agency Quarter 1 Review 2022-23 as provided in Attachment D to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
 6. Notes the Adelaide Central Market Authority Quarter 1 Review 2022-23 as provided in Attachment E to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
 7. Notes the Kadaltilla / Park Lands Authority Quarter 1 Review 2022-23 as provided in Attachment F to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
 8. Notes the Brown Hill Keswick Creek Quarter 1 Review 2022-23 as provided in Attachment G to Item 10.10 on the Agenda for the meeting of Council held on 13 December 2022.
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IMPLICATIONS AND FINANCIALS

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|--|---|
| City of Adelaide 2020-2024 Strategic Plan | <p>Strategic Alignment – Enabling Priorities</p> <p>The quarterly report provides a progress update on the achievement of Council’s Business Plan and Budget and supports the Council’s ability to deliver services in a financially sustainable manner.</p> |
| 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 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 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 budget review meets Council’s obligations under the <i>Local Government Act 1999 (SA)</i> and <i>Local Government (Financial Management) Regulations 2011</i>.</p> |
| 22/23 Budget Allocation | Adjustments to the 2022-23 Budget and the year-to-date performance to end of September 2022, are detailed in this report and Attachment A . |
| 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) | Adjustments to the 2022-23 Budget and the year-to-date performance to end of September 2022, are detailed in this 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 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 to present the year-to-date financial performance for the three months ending 30 September 2022.
3. Following Council approval 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 changes:
 - 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 Quarter 1 Budget Review, along with the financial statements and the Long Term Financial Plan are provided in **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 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 forecasting 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 in line 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 | | | | | | | | | |

Proposed Debt Write off

12. 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 determined that debt write off over \$10,000 requires Council approval, with any write off under \$10,000 delegated to the CEO.
13. A detailed review of all outstanding debts and activities undertaken to recover the debts has occurred. 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.
14. 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.
15. 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.
16. Council adopted the updated Debt Collection policy at its meeting on 9 August 2022. This policy has been updated to mitigate Council's exposure to debt write offs, including promotion of early/upfront payments for event and hiring and more interventions earlier in the debt collection process to avoid instances of non-recovery.
17. In accordance with requirements of section 143 of the Act, records have been maintained of all 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 and outweighs further recovery action.
18. Given the personal nature of detailed debt information, this report provides a high level summary and does not provide names.
19. Following review and extensive recovery efforts, it is recommended to Council that debt write offs should proceed for the amount of \$800,074.
20. 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

21. There are various factors resulting in debts for the Central Market Arcade (CMA), including the significant impact of mandated COVID-19 health and safety restrictions which resulted in reduced foot traffic and impact on trade. While various hardship provisions were offered, including rent relief, abatement and payment arrangements, there were 9 traders that were unable to make the required payments.
22. To ensure continuity of the vibrancy of the CMA, it was decided to keep tenants in occupancy despite unsuccessful attempts to recover their debts. This was to mitigate the significantly greater impacts from vacancies that would have arisen if the leases were cancelled, and tenants evicted.

Debtors in Liquidation

23. These three debtors have undergone years of legal action resulting in liquidation. Administrators have advised that return of funds as an unsecured creditor will not generate a return.

Other Debtors

24. 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 a regional area and liquidated all assets. As such, the ability to recover is limited and highly unlikely without significant cost and with no guarantee of return.

Quarterly Capital Works Status Report Review 1

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

Quarterly Commercial Operations Review 1

26. 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 for the period 1 July to 30 September 2022.

Quarterly AEDA Review 1

27. In accordance with the Charter of the Adelaide Economic Development Agency (AEDA), the 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.
28. This report provides an update for the period 1 July to 30 September 2022.
29. The AEDA 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."
30. AEDA's Quarter 1 financial position remains unchanged from the original 2022/23 budget.

Quarterly ACMA Review 1

31. 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.
32. This report provides an update for the period 1 July to 30 September 2022.
33. 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.'
34. ACMA's Quarter 1 financial position remains unchanged from the original 2022/23 budget.

Quarterly Kadaltilla / Park Lands Authority Review 1

35. 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.
36. Key updates on the activities of Kadaltilla / Park Lands Authority are provided in **Attachment F**.

Quarterly Brown Hill Keswick Creek Review 1

37. The Cities of Adelaide, Burnside, Mitcham, Unley and West Torrens have worked collaboratively over several years via a Section 43 Regional Subsidiary (not 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.
38. Key updates are on activities of Brown Hill Keswick Creek provided in **Attachment G**.

Future Quarterly Reporting

39. The integrated approach provided in this report to address Council's monitoring obligations under Section 122 of the Act allows the 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.
40. For the past two years, Council has worked towards developing Service Delivery Plans which outline the activities and deliverables of Council's 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.
41. To further align and integrate reporting in 22/23, Business Plan and Budget reporting will be based on the service delivery plan structure. The full cost attribution model of the Service Delivery Plans will streamline quarterly reporting to ensure regular monitoring and oversight of services, activities and projects for Council. 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 improvements.

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

- END OF REPORT -