

2022/23 Business Plan & Budget Quarter 2 Update

Friday, 3 February 2023
Audit and Risk Committee

Strategic Alignment - Enabling Priorities

Program Contact:
Manager Strategy & Insights

Public

Approving Officer:
Amanda McIlroy - Chief
Operating Officer

EXECUTIVE SUMMARY

Quarterly reporting is an important 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*. The consideration of performance information quarterly enables Council to make informed and timely decisions to maintain or change its services, assets and budgets to meet community expectations and needs.

With a longer-term lens, quarterly reporting supports a focus on improving Council's financial position and promotes robust financial management, along with a commitment to transparency and accuracy, delivering Council's Strategic Plan and enabling Council to be responsive to risks and opportunities. This is supported by Council's ongoing focus on a financially sustainable approach to asset renewals, growing and diversifying revenue streams, and ensuring maximum return on our investments for the benefit of our community.

This report presents progress of achievements against the Business Plan and Budget (BP&B) 2022/23 in the past quarter, assesses performance, and recommends changes to services, projects or budget as a result of this assessment to inform decision making. Council also receives information on the progress of its subsidiaries.

Quarterly reports are also provided to the Audit and Risk Committee in accordance with its Terms of Reference and its 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.

RECOMMENDATION

THAT THE AUDIT AND RISK COMMITTEE RECOMMENDS TO COUNCIL

That Council

1. Approves the changes for the 2022/23 Business Plan and Budget as identified in this report and reflected in the Quarter 2 update presented in Attachment A to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023.
2. Approves the Uniform Presentation of Finances as presented in Attachment A to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023 and the revised Annual Financial Summary as identified in this report, which include:
 - 2.1. Total estimated operating income of \$213.446 million
 - 2.2. Total estimated operating expenditure (including depreciation) of \$213.359 million
 - 2.3. An operating surplus of \$87,000
 - 2.4. Council borrowings (debt) projected to \$37.9 million.
3. Approves the proposed changes to Operating Position of:
 - 3.1. New offsets across both expenditure and revenue totalling \$2.04 million towards the \$4.83 million savings target set by Council
 - 3.2. The addition of new Strategic Projects as identified in this report.

4. Approves the proposed changes to Capital Budget of:
 - 4.1. Major Projects revised expenditure of \$30.5 million
 - 4.2. New and Upgrades revised expenditure of \$11.3 million
 - 4.3. Renewals revised expenditure of \$42.6 million
 - 4.4. Capital Program Management revised expenditure of \$9.8 million
 - 4.5. Grant funding to support capital expenditure on new/upgraded assets of \$11.5 million.
 5. Notes the Adelaide Economic Development Agency Quarter 2 report 2022-23 (Attachment B to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023).
 6. Notes the Adelaide Central Market Authority Quarter 2 report 2022-23 (Attachment C to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023).
 7. Notes the Kadaltilla / Park Lands Authority Quarter 2 report 2022-23 (Attachment D to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023).
 8. Notes the Brown Hill Keswick Creek Quarter 2 report 2022-23 (Attachment E to Item 5.3 on the Agenda for the meeting of the Audit and Risk Committee held on 3 February 2023).
 9. Notes that the following KPI's are on track:
 - 9.1. KPI 1 - 85% of Projects capitalised within 10 Weeks (exceeding the target of above 70%). This KPI was measured 90% at the conclusion of Quarter 2.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<p>Strategic Alignment – Enabling Priorities</p> <p>Regular reporting to the Audit and Risk Committee on the performance of the organisation demonstrates good governance and supports sound financial management and decision making that enables Council to achieve financial sustainability.</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	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 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 (e.g., maintenance cost)	Not as a result of this report.
Other Funding Sources	Not as a result of this report.

DISCUSSION

Community Services Quarter Highlights

1. Council delivers 13 Community facing services:
 - 1.1. Arts, Culture and Events
 - 1.2. Community Planning and Development
 - 1.3. Community Safety
 - 1.4. Economic Planning and Growth
 - 1.5. Environmental Sustainability
 - 1.6. Library Services
 - 1.7. Park Lands and Open Space
 - 1.8. Parking
 - 1.9. Planning, Building and Heritage
 - 1.10. Property Management and Development
 - 1.11. Resource Recovery and Waste Management
 - 1.12. Sports and Recreation
 - 1.13. Streets and Transportation
2. Service highlights are available in **Attachment A**, from page 8.
3. Our assessment has determined that service delivery levels are appropriate. No recommended changes have been identified to the levels of Service and activities Council delivers.
4. Changes to the budget position (Operating Budget) of some services have occurred and are provided below, from paragraph 22 of this report.

Capital Program Summary

5. The Capital Program is delivered across:
 - 5.1. Major Projects: Significant works of a capital nature that are over the prudential limit, multi-year or have significant grant funding.
 - 5.1.1. At the end of Quarter 2, 46% of Council's projects has been spent or contracted. This is considered to be appropriate and will be further monitored for opportunities to progress.
 - 5.2. New and Upgrade: 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.
 - 5.2.1. At the end Quarter 2, 27% of the new and upgrade program has been spent or contracted. Planned procurement activities during Quarter 3 will improve the spent or contracted delivery over the remainder of the financial year.
 - 5.3. Renewals: works of a capital nature that are replacing an existing asset like for like or like for modern equivalent.
 - 5.3.1. Progress has been made across all asset classes this quarter, resulting in 49% of the 2022/23 program currently delivered or committed. This is considered to be appropriate and will be further monitored for opportunities to progress.
6. There are some external factors that pose risks to delivery of the capital program, including rising interest rates, rising costs of utilities, supply chain limitations, and labour market limitations.
7. The Capital Program Plan and Budget summary is available in **Attachment A** (from page 12).
8. Changes to the Capital Program Plan and Budget for this quarter are provided below, from paragraph 28 of this report.

Strategic Projects Summary

9. Each year, Council allocates budget to strategic projects that address immediate and future needs, complementing the existing services.

10. For 2022/23, Council set a budget parameter for Strategic Projects at a maximum (after grants) of \$5.7 million. 29 Strategic Projects, totalling \$11.29 million, were identified for delivery in 2023/24. A commitment was made to deliver on the Strategic Project parameter by seeking grants and partnerships to make up this difference.
11. The Strategic Projects Plan and Budget summary is available in **Attachment A** (from page 37). Performance to date is considered to be appropriate and will continue to be monitored for opportunities.
12. Changes to the Strategic Projects Plan and Budget for this quarter are provided below, from paragraph 22 of this report.

Quarterly Planning and Budget Review

Year to Date Financial Summary

13. The year-to-date operating position as at 31 December 2022 is an operating surplus of \$62.1 million, which is \$2.1 million better compared to budget of \$60.0 million.
 - 13.1. Total operating income of \$166.0 million.
 - 13.2. Total operating expenditure of \$103.9 million.
14. This positive increase in the operating surplus is largely the result of lower employee expenses (\$2.0 million) and interest expense (\$0.7m).
15. Year-to-date Capital expenditure of \$23.0 million for the period to 31 December 2022 is \$7.8 million higher than the budget of \$15.2 million.
16. As of 31 December 2022, Council had no borrowings.

Revised Annual Financial Summary

17. The proposed quarter review continues to deliver an end of year operating surplus of \$87,000, which consists of:
 - 17.1. Total estimated operating income of \$213.446 million.
 - 17.2. Total estimated operating expenditure (including depreciation) of \$213.359 million.
18. Total proposed Capital Expenditure for Quarter 2 is \$94.27 million, a reduction of \$11.9 million from Quarter 1.
19. Grant funding to support capital expenditure on new/upgraded assets is now \$11.5 million due to retiming of projects to 2023-24, and readjustment of grant income.
20. The above changes result in an increase to Council's forecasted borrowings as of 30 June 2023 to \$37.9 million from \$28.1 million in Quarter 1.
21. Updated financial statements as of the end of this quarter are available in **Attachment A**.

Proposed changes to Operating Position, including Strategic Projects

22. A budget repair target of \$4.83 million was set by Council in the 2022/23 Business Plan and Budget:
 - 22.1. \$0.78 million was identified in Quarter 1.
 - 22.2. A further \$2.04 million has been identified in Quarter 2, as outlined in **Attachment A** (page 49).
 - 22.3. The remaining \$2.01 million will be reported in future quarterly reviews.
23. With a lens of efficiency and customer need, the following Service budget changes have occurred and contribute towards the budget repair target:
 - 23.1. Arts, Culture and Events and Community Planning and Development: \$0.05 million has been realigned between these services.
 - 23.2. Library Services: Reclassification of grant funding of \$0.3 million has been allocated from the Capital budget.
 - 23.3. Park Lands and Open Space: Additional grant funding of \$0.1 million.
 - 23.4. Property Management and Development: A net reduction of \$1.2 million associated with additional income as a result of advertising contracts and a reduction in interest expense following the finalisation of the 2021/22 financial statements.
 - 23.5. Sports and Recreation: Reduction of \$2.0 million due to the retiming of grant funding to 2023/24.
 - 23.6. All services: \$2.4 million reduction shared across all services predominantly due to reduced employee expenses, higher interest income, lower interest expenditure and reduced water consumption.

24. The total budget for Strategic Projects has increased from \$11.29 million to \$13.15 million this quarter, however expenditure is on track to meet Council's net expenditure parameter of \$5.7 million, with grant funding and partnerships ensuring that we are able to deliver on our proposed budget commitment.
25. Additional Strategic Projects in response to new grant funding received / recognised this quarter:
 - 25.1. CreaTech: \$0.3 million for a new project for 2022/23 that is fully funded by the State Government.
 - 25.2. Mainstreet and Laneway Revitalisation Grants: \$0.32 million. \$0.2 million of grant funding from the State Government was identified in the 2022/23 Business Plan and Budget and is recognised this quarter against this Strategic Project. \$0.12 million has been allocated this quarter in response to ongoing and emerging activities.
26. Based on community expectation and need, five Reignite Strategic Projects from 2022/23 have been identified for additional funding this quarter:
 - 26.1. Digital Marketplace: \$0.22 million.
 - 26.2. ADLocal (Small Business Promotion Campaign): \$0.14 million.
 - 26.3. Marketing for new and existing programs: \$0.18 million.
 - 26.4. Shopfront Improvement Grants: \$0.88 million.
 - 26.5. Vacant Tenancy Revitalisation: \$0.17 million.
27. Further Strategic Project changes this quarter:
 - 27.1. Economic Planning and Growth
 - 27.1.1. Deliver next generation Adelaide Free Wi-Fi: \$1.37 million of City Deal grant funding was identified in the 2022/23 Business Plan and Budget and has now been recognised against this Strategic Project, reflecting a full financial year cost of \$1.97 million (\$0.6 million identified as Strategic Project funding in the 2022/23 Business Plan and Budget).
 - 27.1.2. Sponsorship – new events: Reduction in required expenditure from \$0.24 million to \$0.16 million due to the delivery of activities in 2021/22.
 - 27.1.3. Sponsorship – city stimulus event funding: Reduction in required expenditure from \$0.33 million to \$0.31 million due to the delivery of activities in 2021/22.

Proposed changes to Capital Budget

28. Year-to-date Capital expenditure is \$23.0 million for the period to 31 December 2022, which is \$7.8 million higher than the budget of \$15.2 million.
29. Major Projects show a revised expenditure of \$30.5 million, a reduction of \$8.4 million from Quarter 1.
30. Major Projects that have had a change in their planning and budgeting from the previous quarter are:
 - 30.1. Cycling Infrastructure: additional budget of \$0.3 million.
 - 30.2. Mainstreet improvements: of the \$4 million State Government Grant received, \$3.94 million has been re-timed to 2023/24, to better reflect the timings of grants funds and to accommodate design works in 2022/23.
 - 30.3. Market to Riverbank (Pitt Street): \$1.36 million has been retimed to 2023/24.
 - 30.4. Rymill Lake/Murlawirrapurka (Park 14) Upgrade: \$3.57 million has been retimed to 2023/24.
 - 30.5. Park 27b – Community Sports Building Redevelopment: This project has been reclassified from Renewal to Major Project, which reflects alignment of the grant funding and whole of life cost (\$2m) of this project and has resulted in \$0.1 million added to Major Projects for 2022/23.
31. New and Upgrade projects show revised expenditure of \$11.31 million, a reduction of \$2.25 million from Quarter 1.
32. New and Upgrade projects that have had a change in their planning and budgeting from the previous quarter are:
 - 32.1. Arts, Culture and Events: reduction of \$0.05 million due to the reclassification of the Events and Festival Infrastructure Fund.
 - 32.2. Economic Planning and Growth: reduction of \$0.12 million due to savings from completed Adelaide Central Market Authority projects.

- 32.3. Park Lands and Open Space: reduction of \$0.30 million due to River Torrens/Karriwirra Pira Lake Earth retaining structure project tender price coming in below budget, savings used to fund additional requirements in a major Park Lands project.
- 32.4. Sports and Recreation: reduction of \$1.8 million due to retiming of the Mini Golf Project into 2023/24 (\$2 million), offset by new expenditure of \$0.2 million for Golf improvement projects.
- 32.5. Streets and Transportation: Increase of \$0.06 million due to new intersection traffic signal safety improvements and design cost increase, funded from savings in other areas.
- 33. Renewals show a revised expenditure of \$42.64 million, a reduction of \$1.81 million from Quarter 1.
- 34. Capital Program Management shows a revised expenditure of \$9.8 million, an increase of \$0.53 million from Quarter 1.

Assessment of KPIs

- 35. 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).
- 36. At the end of Quarter 2:
 - 36.1. KPI 1 (85% of Projects capitalised within 10 Weeks) is considered to be on track – 90% of completed projects were capitalised within 10 weeks of practical completion. This was a total of 40 projects as of 31 December 2022 that contribute towards the 90% (36 of 40 met the KPI). At Quarter 2 in 2021/22, the KPI 1 achieved 78%. This represents an improved outcome for the current financial year.
 - 36.2. KPI 2 (< 10% Variance between Preliminary Year End and Annual Financial Statement) is an annual measure which is determined at the end of the financial year.

Long Term Financial Plan (LTFP)

- 37. The City of Adelaide LTFP is a dynamic financial model which analyses financial trends over a ten-year period, based on a range of assumptions. This provides Council with information that ensures resourcing requirements are assessed to achieve its strategic objectives and allows Council to ensure its future sustainability.

Specific proposed changes to LTFP are:

- 38. Retiming of capital projects and associated grant income into 2023/24 as detailed above.
- 39. Retiming of contributions towards Brown Hill Keswick Creek.
- 40. Retiming of Proceeds from the Sale of Assets identified in the Strategic Property Review.
- 41. Updates to depreciation following with completion of the 2021/22 Financial Statements.

Changes to the LTFP assumptions

- 42. At the meeting of the Audit and Risk Committee on 4 February 2022, an undertaking was given to include information on the impacts of Consumer Price Index (CPI) and increased interest rates in the quarterly LTFP updates.
- 43. Deloitte's Access Economics data is used as a source for forecasting assumptions 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.
- 44. We propose that the assumptions used in preparing the adopted LTFP are updated with the latest data release from Deloitte in September 2022. At the time of the report, December 2022 data had not yet been released.

45. The detail of this amendment is provided in the tables below:

45.1. The CPI assumption in the 2022-23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics projections for South Australia. The revised assumptions are based on the September 2022 projections

Assumption	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
CPI - Adopted	1.80%	2.34%	2.38%	2.38%	2.31%	2.41%	2.47%	2.32%	2.36%	2.29%
CPI - Revised	No Change - will be managed via Quarterly updates.	4.20%	2.50%	2.50%	2.50%	2.50%	2.40%	2.30%	2.30%	2.40%

45.2. The Wage Price Index (WPI) assumption in the 2022-23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics projections for South Australia. The Revised assumptions are based on the September 2022 projections for those financial years where there is not a current Enterprise Agreement in place.

Assumption	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
WPI - Adopted	2.00%	2.80%	2.71%	2.62%	2.70%	2.69%	2.97%	3.15%	3.21%	3.32%
WPI - Revised	No Change - will be managed via Quarterly updates.	3.60%	3.30%	3.10%	3.20%	3.40%	3.50%	3.50%	3.40%	3.40%

45.3. The Interest assumption in the 2022-23 to 2031-32 LTFP adopted by Council was set based on the March 2022 Deloitte Access Economics 10 Year Government Bond projections for Australia. The Revised assumptions are based on the September 2022 projections for those financial years where there is not a current Enterprise Agreement in place.

Assumption	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Interest Rates - Adopted	1.68%	2.23%	2.37%	2.46%	2.66%	2.78%	2.71%	2.48%	2.25%	2.10%
Interest Rates - Revised	No Change - will be managed via Quarterly updates.	3.20%	3.00%	3.00%	3.00%	3.10%	3.10%	3.10%	3.10%	3.10%

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DATA AND SUPPORTING INFORMATION

The following data sources were used in developing this report:

Profile ID (*data sources utilised to update the City Profile*)

Deloitte Access Economics (*data sourced utilised by Finance to support updates to the Long-Term Financial Plan*)

ATTACHMENTS

Attachment A – 2022/23 Business Plan and Budget: Quarter 2 update

Attachment B – Adelaide Economic Development Agency Quarter 2 update

Attachment C – Adelaide Central Market Authority Quarter 2 update

Attachment D – Kadaltilla / Park Lands Authority Quarter 2 update

Attachment E –Brown Hill Keswick Creek Quarter 2 update

- END OF REPORT -