



**13.1 FINANCIAL UPDATE - FIRST QUARTER 2023-24 FINANCIAL REVIEW**

**EXECUTIVE MEMBER: LACHLAN JOHNSON, GENERAL MANAGER, OPERATIONS AND INFRASTRUCTURE**

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**1. PURPOSE**

- 1.1 To provide Council with an overview of the results of the first quarter 2023/24 performance to budget and seek approval for several unbudgeted items to be funded from the surplus.

**2. EXECUTIVE SUMMARY**

- 2.1 The Council Plan 2021-2031 (Year Three) and Budget 2023/24 was adopted at the 20 June 2023 Special Council meeting. Budget 2023/24 included as a business-as-usual approach with key changes including a below rates cap rates increase (2.8 per cent increase) and continued implementation of the 'Don't Waste It!' Waste Management Strategy 2022-2025.
- 2.2 Budget 2023/24 was adopted with a surplus of \$0.87 million. During the first quarter the forecast surplus has reduced to \$0.07 million, this is a reduction of \$0.79 million compared to Budget 2023/24 (see Attachment 1).
- 2.3 Despite the reduction in cumulative cash surplus, Council's financial sustainability risk (see section 4) is expected to achieve an overall low risk rating based on projections resulting from the first quarter review (as budgeted). However, there are external and internal factors that may negatively impact our financial performance including transfer of responsibilities from State Government and high inflation which is increasing the cost base of our core services. Additionally, State and Federal Government reforms challenge the way that Council delivers services including planning, aged care, and short stay accommodation.
- 2.4 During the first quarter of 2023/24, ongoing efficiency savings of \$0.19 million were achieved as Council works towards its target for Budget 2024/25 of \$1.8 million. Efficiencies occur where Council can deliver the same services for less, generate new revenue opportunities or through portfolio investments that generate positive returns.
- 2.5 The Project Portfolio has reduced by net \$0.4 million to a 2023/24 forecast of \$76.2 million. Year to date total portfolio spend of \$7.6 million, \$1.4 million less than year to date forecast with 90% of total forecast spend remaining for 2023/24 (see Portfolio deferrals and achievements outlined in Attachment 2)
- 2.6 As part of the first quarter budget review, funding requests totalling \$25,000 are put forward for Council consideration.



### 3. RECOMMENDATION

That Council:

- 3.1 Notes that full year cumulative cash surplus before the first quarter budget requests is \$0.07 million which is \$0.79 million unfavourable compared to budget of \$0.87 million with the following movements:
  - 3.1.1 Transfer of responsibility from the State Government for Combustible Cladding management for the next 3 years (annual cost of \$128,000) assumed to be fully recovered from the state government (pending confirmation of funding deed).
  - 3.1.2 Re-instatement of \$0.25 million budget for contracted parking ticket machine maintenance as budgeted efficiencies were not achieved through procurement of a new contract. As a result, the existing contract for parking machine maintenance has been extended and procurement will be reconsidered.
- 3.2 Notes attachment 1 – Financial Statements with accompanying explanatory notes.
- 3.3 Notes attachment 2 – Portfolio deferrals and achievements from the first quarter 2023/24.
- 3.4 Approves up to \$25,000 of additional funding requests (see attachment 3 – September 2023 Budget Requests for more details) including:
  - 3.4.1 \$25,000 one off contribution to Port Melbourne Tennis Club for court resurfacing works to be delivered by the Club.

### 4. KEY POINTS/ISSUES

- 4.1 The organisation carries out a monthly review of all operating revenue and expenditure as well as the project portfolio, which is then reported as part of the monthly CEO Report.
- 4.2 The results for the first quarter are presented to Council using two sets of performance reporting instruments:
  - 4.2.1 The Comprehensive Income Statement Converted to Cash.
  - 4.2.2 The Victorian Auditor General Office's (VAGO) Financial Sustainability Indicators.

#### **Comprehensive Income Statement Converted to Cash**

- 4.3 We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
- 4.4 Councils forecast cumulative cash surplus for 2023/24 has been updated in the first quarter to \$0.07 million (excluding budget requests subject to Council consideration), which is \$0.79 million unfavourable compared to budget of \$0.87 million (Attachment 1).
- 4.5 Council's forecast operating surplus has also decreased by \$1.93 million from \$10.39 million to \$8.46 million. Full details are contained in Attachment 1 financial statements including commentary on material variances. The following section provides a high-level overview of key movements.
- 4.6 **Net revenue decrease of \$0.29 million mainly due to:**



- 4.6.1 \$0.25 million Improvement in other income predominately due to increasing interest income due to favourable cash holdings and increasing investment yields due to improved investment returns projected for full year.
- 4.6.2 \$0.25m increase in supplementary rates billing during July billing predominately due to growth in residential properties.
- 4.6.3 These improvements have been offset by the inclusion of a provision for the partial return of government funding for aged care services, due to service delivery challenges impacting the achievement of contracted performance targets. There are several factors that have impacted Councils ability to deliver service targets including the implementation of the Aged Care Reforms as the Federal Governments moves to a competitive marketplace reducing the volume of service referrals that Council receives, industry resourcing challenges, and the growing cost of delivering services above funding rates.

**4.7 Net expenditure increases of \$1.71 million mainly due to:**

- 4.7.1 \$0.17 million decrease to right of use (financed leased asset) expenditure based on current mix of lease vehicles and equipment. These savings are used to funds the fleet renewal program (purchasing vehicles as opposed to leasing).
- 4.7.2 (\$0.25) million re-instatement of budget for parking ticket machine maintenance contract due to budget efficiencies not able to be achieved through procurement of new contract.
- 4.7.3 (\$0.52) million increase current year capital write off expenditure (non-capital spend associated with capital projects) due to capital program deferrals from 2022/23 after budget adoption (offset against project reserves).
- 4.7.4 (\$0.60) million additional net cost due to delays in transitioning to fortnightly garbage service. This has been partially offset by delays in Multi Unit Development (MUDs) FOGO rollout.
- 4.7.5 (\$0.63) million increase for 2022/23 operating projects deferred to 2023/24 after budget adoption. Key deferrals including Fishermans Bend and Greening Port Phillip Program (offset against reserves).

**4.8 Net capital reduction of \$1.30 million mainly due to:**

- 4.8.1 \$1.8 million capital expenditure deferrals to 2024/25 and future years
- 4.8.2 (\$1.2) million deferrals post 2023/24 budget adoption
- 4.8.3 \$1.4 million early purchase of land for Lansdowne Road new small local open space project in 2022/23.
- 4.8.4 (\$0.7) million other minor movements including additional projects, cost escalations and minor project savings. See capital works statement for detailed breakdown (Attachment 1)

**4.9 Net reserve drawdowns decreased by \$0.19 million due to:**

- 4.9.1 (\$1.5) million net reduction to Contractual Reserves due to:
  - (\$0.40) million additional drawdown on the waste charge reserve based on actual waste charge billing and waste transformation program delays
  - (\$1.12) million additional net drawdown on tied grant to address prepayment of grant income such as the Victorian Grants Commission funding for 2023/24.
  - \$0.19m for project related deferrals and timing of project delivery.



- 4.9.2 \$0.74 million increase to Strategic Reserves predominately due to:
- \$0.26 million decreased drawdown on Gasworks Park reserve due to project delays.
  - \$0.21 million decrease drawdown on Sustainable Transport Reserve predominantly external funding received for transport project previously reserve funded.
  - \$0.35 million additional allocation to the Strategic Property Reserve due to additional laneway sales forecasted.
- 4.9.3 \$1.5 million reduced drawdown on Statutory Reserves (Open Space Contributions) predominantly due to land acquisition completed early in 2022/23.

**Assessment against VAGO Financial Sustainability Indicators**

- 4.10 Council’s decision-making is reflected by the principles of sound financial management, to ensure our financial position is sustainable. We assess our financial performance using the VAGO financial sustainability indicators.
- 4.11 Council is forecasting a low-risk financial sustainability rating at the end of the first quarter, highlighted by the seven VAGO financial indicators below:

Indicator	Forecast 2023/24	Budget 2023/24	Variance	Risk
Net Result %	3.2%	4.0%	(0.8%)	Low
Adjusted Underlying Result %	(0.3%)	0.5%	(0.8%)	High
Working Capital %	373%	351%	22%	Low
Internal Financing %	97%	77%	2%	Medium
Indebtedness %	1.3%	1.3%	0.0%	Low
Capital Replacement %	253%	267%	(14.0%)	Low
Infrastructure Renewal Gap %	195%	199%	(4.0%)	Low
<b>Overall financial sustainability risk rating</b>	<b>Low</b>	<b>Low</b>	<b>No Change</b>	<b>Low</b>

4.12 The indicators generally need to be considered from a medium-term trend perspective rather than annual basis. A medium rating over one or two years is acceptable particularly in response to short-term events such as COVID-19 but over the medium to long-term, Council aims to achieve a low-risk rating overall.

**4.13 Net Result %:**

- 4.13.1 Net Result % assesses Council's ability to generate an operating surplus. The greater the result, the stronger the operating surplus. Budget 2023/24 included a 4.0% net result due to an operating surplus of \$10.4m.



4.13.2 Net Result %, has decreased by (0.8%) to a forecast of 3.2% for 2023/24 maintaining a low-risk rating. This is caused by a decrease in operating surplus to \$8.4 million due a reduction in grant income and an increase in expenditure for projects deferred from 2022/23 (noting these funds are held in reserves).

**4.14 Adjusted Underlying Result %:**

4.14.1 Adjusted Underlying Result % assesses council's ability to generate surplus in the ordinary course of business excluding non-recurrent capital grants and contributions to fund capital expenditure from net result.

4.14.2 An underlying deficit is normally budgeted due to the reliance on external funding/contributions to fund our infrastructure assets works. For instance, Open Space Contributions are collected, held in reserve to fund upgrades, expansion and new of public space.

4.14.3 The first quarter review forecasts a marginal medium/high risk result due to the same factors highlighted in the Net Result ratio.

**4.15 Workings Capital %:**

4.15.1 This working capital ratio assesses Council's ability to pay short-term liabilities as they fall due (current assets/ current liabilities).

4.15.2 Council has no working capital issues at the forecast 373% with a low-risk rating. This has improved slightly due to a projected decrease in liabilities at year-end (predominately payables).

**4.16 Internal Financing %:**

4.16.1 The internal financial ratio assesses Council's ability to finance capital works using cash generated from its operations. A ratio below 100 means cash reserves or borrowing are being used to fund capital works, which is acceptable on occasions.

4.16.2 Internal financing has improved to 98% with a medium risk rating primarily due to updating timing of collection of cashflows and a minor reduction in capital expenditure (delayed to future years, with funds held in reserves).

**4.17 Indebtedness %:**

4.17.1 The indebtedness ratio assesses Council's ability to repay its non-current debt from its own source revenue.

4.17.2 This indicator shows a low risk for Council with a forecast of 1.3% which is consistent with budget and significantly lower than the 40% target. Council has no current or planned borrowings Budget 2023/24 and Long-Term Financial Plan.

**4.18 Capital Replacement %:**

4.18.1 The capital replacement ratio assesses whether Council's overall cash spend in renewing, growing and improving its asset base is enough.

4.18.2 Capital replacement % has reduced slightly from budget to 253% with a low-risk rating caused by a small reduction in capital expenditure (delayed to future years, with funds held in reserves).

**4.19 Infrastructure Renewal Gap %:**

4.19.1 The infrastructure renewal gap ratio assesses Council's spend on its asset base is keeping up with the rate of asset depletion (depreciation).



- 4.19.2 Infrastructure renewal gap % has reduced slightly from budget to 195% with a low risk rating caused by a small reduction in capital expenditure (delayed to future years, with funds held in reserves).

#### **Project Portfolio Update**

- 4.20 The Project Portfolio has reduced by net \$0.4 million to a 2023/24 forecast of \$76.2 million. The portfolio forecast decreased during the first quarter due to deferrals to 2024/25 and project savings. This was partially offset by unbudgeted deferrals from 2022/23 and cost increases in construction projects.
- 4.21 Year to date total portfolio spend of \$7.6 million, \$1.4 million less than year to date forecast with 90% of total forecast spend remaining for 2023/24.
- 4.22 The portfolio status is tracking better than the 12-month average with 72% of projects reported On Track, 21% At-Risk and 7% Off Track.
- 4.23 The key challenges impacting delivery continue to be;
- 4.23.1 Construction costs: Tenders and cost plans are still returning with significant increase in costs compared to budget
- 4.23.2 Contractor availability: Competition for resources for design and construction with the State Government Big Build and other Councils that are also in year three of their council plans
- 4.23.3 Resource market: recruitment is still competitive for project management and specialised roles
- 4.24 See major portfolio deferrals and achievements outlined in Attachment 2.

#### **First Quarter Unbudgeted Initiative Requests and other Movements**

- 4.25 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals.
- 4.26 The following funding requests have been identified as part of the first quarter review for Council consideration (see attachment 3 – Budget Requests September 2023 for more details).
- 4.27 Total budget requests of \$25,000 will be funded from a drawdown on the cumulative cash surplus. If approved, the cumulative cash surplus will reduce from \$0.07 million to a deficit of \$0.04 million 2023/24.
- 4.27.1 **Port Melbourne Tennis Club**
- The Port Melbourne Tennis Club has requested funding for \$25,000 to contribute to construction costs of the courts resurfacing project. Officers have been working with the club over the last 3 months to provide advice for the court design and drainage requirements. Under the lease the club are responsible for upgrades. The Club will deliver these works conditional on receiving landowner consent and Council receiving appropriate plans.
- 4.28 In addition to the unbudgeted initiatives, a recent transfer of responsibility has been announced by the State Government (noting that it will be provisionally funded by State Government):
- 4.28.1 The planning minister has revoked the declaration of the Victorian Building Authority (VBA) as the Municipal Building Surveyor (MBS) for high and extreme risks rated buildings. This transfers the responsibility back from State Government to Local Government. Expert knowledge and experience in dealing





with combustible cladding compliance, enforcement and rectification including essential safety measures is required. Registration as a building practitioner in the category of 'building surveyor – unlimited' is essential to carry out this role and function. This is a fixed term 0.8 FTE appointment for 3-year fixed term contract with an annual cost of \$128,000 and with \$85,000 for 2023/24. Noting that the State Government has announced that funding will be provided and advocacy work is being conducted.

## 5. CONSULTATION AND STAKEHOLDERS

- 5.1 The first quarter 2023/24 budget review and consideration of unbudgeted initiatives has been conducted after engagement with relevant stakeholders from across the business as required.

## 6. LEGAL AND RISK IMPLICATIONS

- 6.1 As outlined in section 4, the Council's financial sustainability risk is considered low based on projections resulting from the first quarter review (as budgeted). However, there are a number of specific risks that Council is facing:
- 6.1.1 **Persistent Inflation** - High inflation continues to increase the cost base of our core services and projects. Melbourne all groups CPI rose by 1.3 per cent in the September quarter (4.9 per cent since September 2022). Recent overseas conflict is likely to cause further economic uncertainty and result in higher inflation. This remains one of our key risks in Budget 23/24 and our 10-year financial plan.
  - 6.1.2 **Fishermans Bend Funding Gap** – Ongoing significant risk of unfunded local infrastructure putting risk on delivery. Current economic environment means external funding opportunities may not be possible.
  - 6.1.3 **Planning Reforms** - The State Government has recently announced changes to the planning scheme. The reforms are likely to impact Council revenue, particularly for large planning approvals over \$50 million which will be managed by the state and also changes to planning requirements for residential backyard studios. The full impact of the reforms are still being investigated with; several questions raised with the State Government.
  - 6.1.4 **Project Delivery** – the portfolio (including both capital and operating programs) continues to experience increasing delivery risks due to staff resourcing, external dependencies, external approval, and statutory approvals.

## 7. FINANCIAL IMPACT

- 7.1 Budget 2023/24 was adopted with a surplus of \$0.87 million. During the first quarter the forecast surplus has reduced to \$0.07 million, this is a reduction of \$0.79 million compared to Budget 2023/24 (see Attachment 1).
- 7.2 Total budget requests of \$25,000 will be funded from a drawdown on the cumulative cash surplus. If approved, the cumulative cash surplus will reduce from \$0.07 million at worst to a deficit of \$0.04 million 2023/24.
- 7.3 The transfer of responsibility from the State Government for Combustible Cladding management if not fully reimbursed would be an ongoing cost-shift. We will continue to advocate for State funding.



**8. ENVIRONMENTAL IMPACT**

- 8.1 The first quarter review includes adjustments to Council’s project portfolio and considers delivery and environmental impacts.

**9. COMMUNITY IMPACT**

- 9.1 The updated financial information presented as part of the first quarter budget 2023/24 review including ongoing careful financial management will continue to deliver benefits to the community and support to the local economy.
- 9.2 The unbudgeted initiatives requested in section 4 will directly benefit the community members using local sports fields such as the Port Melbourne Tennis Club. This will be achieved through improved facilities available to community members using the facility.

**10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY**

- 10.1 The first quarter Budget 2023/24 review supports strategic direction 5 – “Well Governed Port Phillip” as a city that is a leading local government authority, where our community and our organisation are in a better place as a result of our collective efforts. This review helps to ensure that Port Phillip Council is cost-effective, efficient and delivers with speed, simplicity, and confidence.

**11. IMPLEMENTATION STRATEGY**

**11.1 TIMELINE**

- 11.1.1 The initiatives proposed can commence immediately if approved by Council.

**11.2 COMMUNICATION**

- 11.2.1 Since the Budget was set new information on the costs of initiatives and accuracy of forecasts has been received. These changes are reflected in updated forecasts in the monthly CEO report.

**12. OFFICER DIRECT OR INDIRECT INTEREST**

- 12.1 No officers involved in the preparation of this report have any material or general interest in the matter.

**ATTACHMENTS**

1. **First Quarter 2023-24 Financial Statements**[↓](#)
2. **First Quarter 2023-24 Portfolio Deferrals and Achievements**[↓](#)
3. **Budget Requests September 2023**[↓](#)