



ORDINARY MEETING OF COUNCIL 21 NOVEMBER 2018

14.2 SEPTEMBER 2018 QUARTER FINANCIAL REPORT

EXECUTIVE MEMBER: CHRIS CARROLL, GENERAL MANAGER, CUSTOMER AND CORPORATE SERVICES

PREPARED BY: PETER LIU, COORDINATOR MANAGEMENT ACCOUNTING & FINANCIAL ANALYSIS

1. PURPOSE

- 1.1 To provide Council with an overview of the results of the September 2018 quarter budget review for 2018/19 and obtain adoption of a number unbudgeted initiatives to support Council Plan objectives.

2. EXECUTIVE SUMMARY

- 2.1 A fiscal budget is adopted by Council for the following financial year by June 30 each year. The budget is prepared over the February through May period using information and estimates available at that time.
- 2.2 Since the Budget was set new information on the costs of initiatives and accuracy of forecasts has been received. In addition, the Council has approved some additional unbudgeted initiatives. These changes are reflected in updated forecasts in the monthly CEO report.
- 2.3 The organisation has also identified a range of discretionary unbudgeted items for Council consideration that align with Council priorities.
- 2.4 Following the September 2018 quarter budget review, the organisation is projecting a full year net cash surplus of \$2.42 million which is \$1.74 million favourable compared to budgeted cash surplus of \$0.68 million
- 2.5 As part of the first quarter budget review, the Executive Leadership Team has endorsed a proposal to Council approval of up to \$1.58 million of unbudgeted expenditure.

3. RECOMMENDATION

That Council:

- 3.1 Notes that following the September 2018 quarter review the organisation is projecting a full year net cash surplus of \$2.42 million which is \$1.74 million favourable compared to budgeted cash surplus of \$0.68 million.
- 3.2 Notes attachments 1 and 2 being the Comprehensive Income Statement Converted to Cash – September 2018 and accompanying explanatory notes
- 3.3 Approves up to \$1.58 million of unbudgeted expenditure and notes attachments 3 being the Unbudgeted Initiative Requests – September 2018.



4. KEY POINTS/ISSUES

4.1 The September 2018 Quarter financial review result

- 4.1.1 The organisation carries out monthly review of all operating revenue and expenditure as well as the project portfolio.
- 4.1.2 The results of the September 2018 Quarter review are presented to Council using two sets of performance reporting instruments:
- The Comprehensive Income Statement Converted to Cash
 - The Victorian Auditor General Office's (VAGO) Financial Sustainability Indicators.

4.2 Comprehensive Income Statement Converted to Cash

- 4.2.1 We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
- 4.2.2 The September 2018 Quarter review expects Council to achieve a cumulative cash surplus for 2018/19 of \$2.42 million (excluding the additional initiatives subject to Council consideration), an increase of \$1.74 million on Budget 2018/19 (Attachment 1).
- 4.2.3 A net deterioration to our operating result by \$0.47 million including \$0.10 million of efficiency and budget savings:
- (\$0.24) million of net unfavourable one-off adjustments
 - \$0.07 million of net favourable recurrent adjustments
 - (\$0.30) million of adjustments to reserves mainly due to expenditure deferred from 2017/18.
- 4.2.4 Capital expenditure reduced by \$0.83 million:
- \$0.76 million of 2017/18 deferrals to be spent in 2018/19
 - \$0.99 million additional expenditure mainly due to timing of expenditure over multiple financial years. Other factors include unbudgeted funding, increases due to higher tender prices, and the need to address compliance and safety issues.
 - (\$2.04) million of budget reductions mainly due to works completed ahead of schedule in 2017/18.
 - (\$0.54) million of capital expenditure reclassified to operating.



- 4.2.5 Reserves drawdown increased by \$1.18 million mainly due to works deferred from 2017/18.
- 4.2.6 Details of forecast updates that impact the current financial year are set out in Attachment 2.

4.3 Assessment against VAGO Financial Sustainability Indicators

- 4.3.1 Council’s decision-making is reflected by the principles of sound financial management, to ensure our finance position is sustainable. We assess our financial performance using the VAGO financial sustainability indicators.
- 4.3.2 The September 2018 quarter review indicates an overall low risk financial sustainability rating for Council highlighted by the six VAGO financial indicators below.

Indicator	Budget 2018/19	September 2018	Variance	Risk
Net Result %	0.5%	0.3%	(0.2%)	Low
Working Capital %	216%	239%	23%	Low
Internal Financing %	72%	78%	6%	Medium
Indebtedness %	5.5%	4.8%	0.7%	Low
Capital Replacement %	170%	166%	(4%)	Low
Infrastructure Renewal Gap %	124%	119%	(5%)	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

Net Result %:

- 4.3.3 A modest surplus was budgeted for 2018/19 which includes the non-recurrent Customer Experience Program expenditure.
- 4.3.4 The September 2018 quarter review shows Council is on track to deliver a surplus of \$0.57 million, 0.3% of total income

Working Capital %:

- 4.3.5 The Budget 2018/19 forecast working capital ratio of 216%.
- 4.3.6 The actual financial position for 2017/18 compared favourable to the forecast position for 2017/18 when the 2017/18 budget was prepared. The September 2018 quarter review shows a further improvement to 239%. Council has no issues in paying suppliers and employees when payments fall due.

Internal Financing %:

- 4.3.7 The Budget 2018/19 includes the non-recurrent Customer Experience Program expenditure.



- 4.3.8 The September 2018 quarter review indicates Council is expected to achieve a ratio of 78%, compared favourably to budget by 6% largely due to the net reduction in projects.

Indebtedness %:

- 4.3.9 This indicator shows a low risk for Council as the ratio of 5.5% for Budget 2018/19 is significantly lower than the 40% target.
- 4.3.10 The September 2018 quarter review shows Council is on track to achieve budget.

Capital Replacement %:

- 4.3.11 The Budget 2018/19 ratio of 170% included our planned strategic land acquisition.
- 4.3.12 The September 2018 quarter review indicates a reduction in this ratio to 166% mainly due to the net capital expenditure reduction of \$0.83 million. A number of unbudgeted capital initiatives have been put forward for Council consideration. If approved by Council will lift this ratio.

Infrastructure Renewal Gap %:

- 4.3.13 The Budget 2018/19 ratio of 124% indicates sufficient provision in the capital program for asset renewal and upgrade.
- 4.3.14 The September 2018 quarter review forecasts a decrease to 119%. This still significantly above the 100% required for a low risk rating.

- 4.4 Officers review financial performance each month and test the robustness of the budget with respect to the full financial year outcome. Where variances suggest that differences to budget are likely to become permanent in most circumstances judgement is applied to the expected outcome and a forecast adjustment is reported in the financial reports that are included in the Chief Executive Officer (CEO) Report.
- 4.5 Although the services delivered by Council are typically routine and predictable it is the case in the economic, social and legislative environment that Council operates in that there is often a need to react to new circumstances that are likely to impact on financial outcomes, service delivery or community safety and welfare.
- 4.6 These unforeseen matters will require Council to respond in a timely and transparent fashion. Where possible Council should make every effort to operate within the agreed Budget parameters but if this is not feasible in the context of the unexpected situation or new information then a clearly communicated process is required.
- 4.7 Unbudgeted initiatives can be categorised as follows:
- 4.7.1 ***Updates to budget*** - generally minor changes to budget related to new or better information over which Council has limited discretion and the investment is required to maintain existing service levels or to deliver on



improvement priorities and projects in the Council Plan. These are reflected as forecast adjustments and reported in the CEO Report each month.

- 4.7.2 **New Council initiatives** - which are likely to be presented as Councillor motion's and which address emerging issues of importance to the community and which were not foreseen and included in the budget. These items will in addition to approval in Council meetings be reported in the subsequent CEO Report.
- 4.7.3 **Mandatory initiatives** – items which generally may not have been foreseen when the budget was set, or are material in nature, over which the Council has limited or no discretion and must be acted on with some urgency. Due to the urgency of such matters, ELT would authorise the necessary action/expenditure (within delegation) and both advise the community and ratify the action taken in the next CEO Report.
- 4.7.4 **Changes in Service delivery or new Strategic initiatives.** These are typically material in financial terms and not contemplated at the time of budget adoption. However, Council has a large degree if not total discretion over incurring the expenditure or at least its timing. These items would require ELT review and approval via Council adoption of a recommendation in a Council Report.

Wherever possible, it is recommended that the process for considering these initiatives is managed as part of a quarterly review of financial performance to ensure decisions are made with good knowledge of the financial position of Council and relative to other priorities.

This process is proposed to occur at the end of the September, December and March quarters each year.

- 4.8 The following unbudgeted initiatives have been identified as part of the September quarter review for Council consideration:

Initiatives	Investment Required 2018/19	Impact on 10-Year Financial Plan
South Melbourne Community Centre – Roof structure and replacement Air Conditioning System	\$150,000	Nil
St Kilda Town Hall – replacement Air Conditioning System (Port Melbourne Room)	\$150,000	Nil
Fitzroy Street Footpaths – remediation works to be carried out as part of Fitzroy Street Placemaking	\$400,000	Nil
St Kilda Library Redevelopment – Options, feasibility & risk assessment	\$150,000	Nil
Essential Services Measure (Building Compliance & Safety) Priority Works for Council Buildings	\$200,000	Nil
Workplace Management Tools & Support	\$100,000	Nil
Bubup Nairn & Library Staff Accommodation Project	\$240,000	Nil
Minor Capital Works including:	\$194,000	Nil



<ul style="list-style-type: none"> • Sol Green Community Centre - External paving & fence replacement • JL Murphy Reserve Soccer Club - Renewal of change rooms • Sandridge Life Saving Club - glazing • St Kilda Town Hall – replacement of ceiling tiles, vinyl flooring, carpet tiles and waterproofing of balcony. • Liardet St Offices – replace with LED lighting • Albert Park Library – replace with LED lighting and carpet. • South Melbourne Depot Admin Officer – replace carpet • South Melbourne Town Hall – replace ceiling tiles • Cora Graves Community Centre – replacement of windows and sliding doors to side of hall (site inspection required) • Bank St Office – replace LED lighting, audit of lights required to determine number of specification 		
Total	\$1,584,000	Nil

For further details, please refer to Attachment 3 (September 2018 Quarter Financial Report – Unbudgeted Initiative Requests)

5. CONSULTATION AND STAKEHOLDERS

5.1 The budget review and consideration of unbudgeted initiatives has been conducted after engagement with relevant stakeholders from across the business

6. LEGAL AND RISK IMPLICATIONS

6.1 Proposed unbudgeted initiatives (South Melbourne Community Centre, St Kilda Town Hall Air Conditioning System, Fitzroy St Footpaths, Essential Services Measure priority works) will reduce risks associated with public safety, OHS and compliance to Building Code legislation.

6.2 As outlined in section 4.4, the Council's financial sustainability risk is considered low based on the projections resulting from the September 2018 quarter review

7. FINANCIAL IMPACT

7.1 The September 2018 quarter review forecasts a year end cash surplus of \$2.42 million which is \$1.74 million above budget. This will be reduced by \$1.58 million subject to approval of the proposed unbudgeted initiatives.



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8. ENVIRONMENTAL IMPACT

- 8.1 Replacement of inefficient Air Conditioning Systems at South Melbourne Community Centre and St Kilda Town Hall (Port Melbourne room) will reduce power usage and therefore more environmentally friendly.

9. COMMUNITY IMPACT

- 9.1 The Fitzroy Street Placemaking program aims to increase trade and vibrancy within the activity centre. Footpath remediation works at Fitzroy Street will address the poor conditions and improve street visual appeal.
- 9.2 A number of proposed initiatives will directly benefit the community members who use the facilities.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 Council's actions on this matter support Direction 6 *"Our Commitment to you – a financially sustainable, high-performing, well-governed organisation that puts the community first"*.

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. In addition, the Council has previously approved some additional unbudgeted initiatives. These changes are reflected in updated forecasts in the monthly CEO report.
- 11.2.2 To ensure that the Council is agile in responding to issues and opportunities throughout the year while maintaining prudent financial management, officers prepare a quarterly budget review to supplement our existing monthly forecasting process outlined in the CEO Report.

12. OFFICER DIRECT OR INDIRECT INTEREST

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

TRIM FILE NO: 34/11/13

ATTACHMENTS

1. Comprehensive Income Statement Converted to Cash - September 2018
2. Explanatory Notes to Comprehensive Income Statement Converted to Cash - September 2018
3. Unbudgeted Initiative Requests - September 2018