



**14.1** QUARTERLY FINANCIAL REPORT - MARCH 2019

**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 financial results of the March 2019 Quarter.

**2. EXECUTIVE SUMMARY**

- 2.1 A fiscal budget is adopted by Council for the following year by June 30 each year. The budget is prepared over the February through May period using information and estimates available at the 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 Following the March 2019 quarter budget review, the organisation is projecting a full year cumulative cash surplus of \$1.17 million, which compared favourably against Budget 2018/19 of \$0.68 million.
- 2.4 In line with Council's financial strategy to bridge the rate cap gap from efficiency savings, the enterprise has achieved \$2.2 million of efficiency savings to the March 2019 quarter. These savings have been incorporated into draft Budget 2019/20.
- 2.5 Council's commitment to sound financial management and financial sustainability has enabled us to address the impact of any unforeseen items within other areas of operational expenditure without significant impact to the full year net cash surplus.

**3. RECOMMENDATION**

That Council:

- 3.1 Notes that following the March 2019 quarter financial review the organisation is projecting a full year net cash surplus of \$1.17 million which is favourable compared to budgeted cash surplus of \$0.68 million.
- 3.2 Notes the enterprise efficiency savings of \$2.2 million which has been incorporated into draft Budget 2019/20.
- 3.3 Notes attachment 1 – Financial Statements with accompanying explanatory notes and the Aged Debtor Balance Report.

**4. KEY POINTS/ISSUES**

**The March 2019 Quarter Financial result**



- 4.1 The organisation carries out monthly review of all operating revenue and expenditure as well as the project portfolio.
- 4.2 The results of the March 2019 Quarter review are presented to Council using the following 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.
  - 4.2.3 Other standard financial statements including Balance Sheet, Statement of Cash Flows, Statement of Capital Works and Aged Debtor Balance Report.
- 4.3 **Comprehensive Income Statement Converted to Cash**
  - 4.3.1 We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
  - 4.3.2 The March 2019 quarter review expects Council to achieve a cumulative cash surplus for 2018/19 of \$1.17 million, which compared favourable against Budget 2018/19 of \$0.68 million - refer to Attachment 1.
  - 4.3.3 A net improvement to our operating result by \$0.51 million:
    - a. (\$1.24) million of net unfavourable one-off adjustments including a reclassification of capital expenditure to operating expenditure.
    - b. (\$0.15) million of net unfavourable recurrent adjustments.
    - c. \$1.90 million of adjustments to reserves mainly due to receipt of open space contributions less adjustments to timing of expenditure funded from reserves.
  - 4.3.4 Capital expenditure reduced by \$2.1 million:
    - a. \$1.31 million of adjustments to reserves mainly due to expenditure deferred from 2017/18.
    - b. (\$3.68) million net reduction due to non-receipt of government funding, project savings and works completed ahead of schedule in 2017/18.
    - c. \$3.17 million of increase due to project scope changes, updated project costing and unbudgeted initiatives subsequently approved by Council.
    - d. (\$1.63) million of Capital Projects deferred or brought forward, including deferral of Sustainability Hub Land Acquisition to 2020/21 in line with current project progress, offset by expenditure brought forward for the South Melbourne Life Saving Club redevelopment.
    - e. (\$1.26) million of capital expenditure reclassified to operating in line with accounting standards including feasibility studies, investigations, soil remediation, landscaping and traffic management.
  - 4.3.5 Details of forecast updates that impact the current financial year are set out in attachment 1.
- 4.4 **Victorian Auditor General's Office Financial Sustainability Indicators**



- 4.4.1 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.
- 4.4.2 The March 2019 quarter review indicates an overall low risk financial sustainability rating for Council highlighted by the six VAGO financial indicators below.

Indicator	Budget 2018/19	Forecast 2018/19	Variance	Risk
Net Result %	0.5%	0.7%	0.2%	Low
Working Capital %	216%	244%	28%	Low
Internal Financing %	72%	82%	5%	Medium
Indebtedness %	5.5%	4.9%	0.6%	Low
Capital Replacement %	170%	161%	(9%)	Low
Infrastructure Renewal Gap %	124%	126%	2%	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

**Net Result %:**

- 4.4.3 The net result ratio assesses Council's ability to generate sufficient funds for asset renewals.
- 4.4.4 The March 2019 quarter review shows Council is on track to deliver a net operating surplus of \$1.55 million, 0.7% of total income.

**Working Capital %:**

- 4.4.5 The working capital ratio assesses Council's ability to pay short term liabilities as they fall due (current assets/current liabilities).
- 4.4.6 The Budget 2018/19 forecast working capital ratio of 216%.
- 4.4.7 The actual financial position for 2017/18 compared favourable to the forecast position for 2017/18 when the 2017/18 budget was prepared. The March 2019 quarter review shows a further improvement to 244%. Council has no issues in paying suppliers and employees when payments fall due.

**Internal Financing %:**

- 4.4.8 The internal financing 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.
- 4.4.9 The Budget 2018/19 includes the non-recurrent Customer Experience which is partly funded from a drawdown on reserve. Future financial benefits are expected to be significantly higher than the program costs.



4.4.10 The March 2019 quarter review indicates Council is expected to achieve a ratio of 82%, which is favourably to budget by 5% largely due to the deferral of portfolio project expenditure to 2019/20 financial year.

***Indebtedness %:***

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

4.4.12 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.

4.4.13 The March 2019 quarter review shows Council is on track to achieve budget.

***Capital Replacement %:***

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

4.4.15 The Budget 2018/19 ratio of 170% included our planned strategic land acquisition.

4.4.16 The March 2019 review indicates a reduction in this ratio to 161% mainly due to the deferral of portfolio project expenditure to 2019/20 financial year.

***Infrastructure Renewal Gap %:***

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

4.4.18 The Budget 2018/19 ratio of 124% indicates sufficient provision in the capital program for asset renewal and upgrade.

4.4.19 The March 2019 quarter review forecasts an increase to 126% mainly due to the works ahead of schedule for the South Melbourne Life Saving Club redevelopment.

**The March 2019 quarter financial review result**

4.5 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report.

4.6 No proposals have been identified for the March 2019 quarter.

**5. CONSULTATION AND STAKEHOLDERS**

The budget review has been conducted after engagement with relevant stakeholders from across the business.

**6. LEGAL AND RISK IMPLICATIONS**

6.1 As outlined in section 4.4, the Council's financial sustainability risk is considered low based on the projects resulting from the March 2019 quarter review.

6.2 Council lodges outstanding infringement fines with Fines Victoria. Fines Victoria is experiencing system issues (see recent Ombudsman Report) which impacts on their ability to collect debts. Officers are proactively managing this issue including referrals to Magistrates Court, identifying the financial impact and sector-wide advocacy.

6.3 Waste and Recycling sector wide disruptions continue to be "act and watch" issue. The effects of the recently announced policy changes from India may have a further



negative financial and environmental impact to Council. Further actions by the Environment Protection Agency on recycling providers including Council's own contractor could also add to the disruption in the sector. Officers are engaged in the sector-wide working group and advocacy for a better outcome to Local Governments.

- 6.4 Draft budget 2019/20 includes a cash surplus of \$0.9 million, \$0.4 million above the \$0.5 million target, to be used for enterprise risks including those mentioned above.

**7. FINANCIAL IMPACT**

The March 2019 quarter budget review forecasts a year end cash surplus of \$1.17 million which compared favourably to Budget 2018/19.

**8. ENVIRONMENTAL IMPACT**

Not applicable.

**9. COMMUNITY IMPACT**

Not applicable.

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

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**

Not applicable.

**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**

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. Financial Statements - March 2019 quarter with notes