



14.2 **FIRST QUARTER 2019/20 FINANCIAL REVIEW**

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

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1. PURPOSE

- 1.1 To provide Council with an overview of the results of the first quarter 2019/20 budget review and seek approval for additional funding for St Kilda Marina Lease project 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 the time.
- 2.2 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.
- 2.3 Following the first quarter budget 2019/20 review, the organisation is projecting a full year net cash surplus of \$0.10 million which is \$0.33 million unfavourable compared to budgeted cash surplus of \$0.43 million.
- 2.4 In line with Council's financial strategy to bridge the rates cap gap from efficiency savings, the enterprise has achieved \$0.57 million of efficiency savings at the end of the first quarter 2019/20.
- 2.5 Council's commitment to sound financial management including continuous productivity and efficiency improvement has enabled us to largely offset some material negative financial impacts including: recycling sector disruptions, additional doubtful parking debts due to collection & systems issued facing Fines Victoria, and higher tender prices on sports field renewal and cleaning costs.
- 2.6 As part of the first quarter budget review, the Executive Leadership Team has endorsed a proposal for Council approval of up to \$0.28 million of unbudgeted expenditure required for St Kilda Marina Lease project to be funded from a drawdown on general reserve for contingencies.

3. RECOMMENDATION

That Council:

- 3.1 Notes that following the first quarter 2019/20 budget review the organisation is projecting a full year cumulative cash surplus of \$0.10 million which is \$0.33 million unfavourable compared to budget of \$0.43 million.



- 3.2 Notes the enterprise efficiency savings of \$0.57 million achieved to the end of September 2019.
- 3.3 Notes attachment 1 – Financial Statements with accompanying explanatory notes and Aged Debtor Balance Report.
- 3.4 Approves up to \$0.28 million of additional funding request for the St Kilda Marina Lease project to be funded from drawdown on general reserve (refer to attachment 2 Budget Requests – September 2019 for details).

4. KEY POINTS/ISSUES

The First Quarter 2019/20 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 first quarter 2019/20 review 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

- 4.2.3 We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
- 4.2.4 The first quarter 2019/20 review expects Council to achieve a cumulative cash surplus for 2019/20 of \$0.10 million (excluding the additional initiatives subject to Council consideration), a decrease of \$0.33 million on Budget 2019/20 (Attachment 1).
- 4.2.5 A net favourable operating result by \$2.44 million including \$0.57 million of efficiency and budget savings:
 - \$2.45 million of adjustment to reserves mainly due to the deferral of Customer Experience program expenditure to 2020/21.
 - \$0.20 million of net favourable one-off adjustments
 - (\$0.21 million) of net unfavourable recurrent adjustments.
- 4.2.6 Net Capital portfolio expenditure reduced by \$2.88 million:
 - (\$0.96 million) of additional expenditure deferred from 2018/19
 - \$0.40 million of budget reductions
 - (\$0.79 million) of budget increases
 - \$5.06 million of budget deferrals to 2020/21
 - (\$0.83 million) of brought forward expenditure



- 4.2.7 Reserves drawdown decreased by \$5.33 million mainly due to works deferred to 2020/21.
- 4.2.8 Details of forecast updates that impact the current financial year are set out in Attachment 1.

Assessment against VAGO Financial Sustainability Indicators

- 4.2.9 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.
- 4.2.10 The first quarter 2019/20 review indicates an overall low risk financial sustainability rating for Council highlighted by the seven VAGO financial indicators below.

Indicator	Budget 2019/20	September 2019	Variance	Risk
Net Result %	(2.5%)	(1.4%)	1.1%	Medium
Adjusted Underlying Result %	(6.6%)	(5.5%)	1.1%	High
Working Capital %	223%	244%	21%	Low
Internal Financing %	67%	77%	10%	Medium
Indebtedness %	4.9%	4.8%	0.1%	Low
Capital Replacement %	158%	146%	(12%)	Medium
Infrastructure Renewal Gap %	136%	122%	(14%)	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

Net Result %:

- 4.2.11 The net result ratio assesses Council’s ability to generate sufficient funds for asset renewals.
- 4.2.12 A deficit was budgeted for 2019/20 due to the inclusion of the non-recurrent Customer Experience Program expenditure.
- 4.2.13 The first quarter review forecasts an improvement to the operating result by \$2.4 million to a deficit of \$3.2 million, (1.4%) of total income. This is mainly due to \$3.2m of Customer Experience Program expenditure deferred to 2020/21 following detailed program planning post engagement of vendors (program is expected to be completed as planned by June 2021).

Adjusted Underlying Result %:

- 4.2.14 This 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.
- 4.2.15 An underlying deficit was budgeted for 2019/20 due to the inclusion of the non-recurrent Customer Experience Program expenditure and because Council relies on external funding/contributions for our infrastructure assets.



- 4.2.16 The first quarter review forecast an improvement to the underlying deficit by \$2.1 million to \$12.2 million, (5.5%) of total underlying income.

Working Capital %:

- 4.2.17 The working capital ratio assesses Council's ability to pay short-term liabilities as they fall due (current assets/current liabilities).
- 4.2.18 The Budget 2019/20 includes a working capital ratio of 223%.
- 4.2.19 The first quarter review shows an improvement to 244% mainly due to deferred capital and Customer Experience Program expenditure to be incurred in 2020/21 and 2021/22.

Internal Financing %:

- 4.2.20 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.
- 4.2.21 The Budget 2019/20 includes the non-recurrent Customer Experience Program expenditure which is partly funded from a drawdown on reserve. Future financial benefits are expected to be significantly higher than the program costs.
- 4.2.22 The first quarter review indicates Council is expected to achieve a ratio of 77%, which is a 10% improvement to budget.

Indebtedness %:

- 4.2.23 The indebtedness ratio assesses Council's ability to repay its non-current debt from its own source revenue.
- 4.2.24 This indicator shows a low risk for Council as the ratio of 4.9% for Budget 2019/20 is significantly lower than the 40% target.
- 4.2.25 The first quarter review shows Council is on track to achieve budget.

Capital Replacement %:

- 4.2.26 The capital replacement ratio assesses whether Council's overall spend in renewing, growing and improving its asset base is sufficient.
- 4.2.27 The Budget 2019/20 includes a ratio of 158%.
- 4.2.28 The first quarter review indicates a reduction in this ratio to 146% mainly due to the net capital expenditure reduction of \$2.88 million (works deferred to 2020/21).

Infrastructure Renewal Gap %:

- 4.2.29 The infrastructure renewal gap ratio assesses Council's spend on its asset base is keeping up with the rate of asset depletion (depreciation).
- 4.2.30 The Budget 2019/20 ratio of 136% indicates sufficient provision in the capital program for asset renewal and upgrade.



- 4.2.31 The first quarter review forecasts a decrease to 122%. This still significantly above the 100% required for a low risk rating.

The first quarter financial review result

- 4.4 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report.
- 4.5 One funding request has been identified as part of the first quarter review for Council consideration.
- 4.6 The St Kilda Marina Lease project is a complex, multi-year project that contains inherent complexity and risk that requires specific expert advice and support to supplement Council Officer input.
- 4.7 There has been a number key changes to the project scope requiring additional \$0.28 million (refer to attachment 2 for details on this budget request):
- 4.7.1 Additional site investigations
 - 4.7.2 Planning Scheme Amendment
 - 4.7.3 Additional legal, procurement, probity and design advice.
- 4.8 The budget request is greater than the current forecast cash surplus. Therefore, funding of this project will require Council to drawdown on General Reserve by \$0.28 million. The General Reserve will still have sufficient funds available for contingencies, operational liquidity and for financial risks.

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 additional budget request for St Kilda Marina Lease project will reduce project risk associated with procurement, legal and financial.
- 6.2 As outlined in section 4.4, the Council's financial sustainability risk is considered low based on the projections resulting from the first quarter review.

7. FINANCIAL IMPACT

- 7.1 The first quarter review forecasts a year end cash surplus of \$0.10 million which is \$0.33 million below budget. Subject to Council approval, the funding of the additional budget request for the St Kilda Marina Lease project to be funded from a drawdown on General Reserve.

8. ENVIRONMENTAL IMPACT

- 8.1 There are no environmental impacts.

9. COMMUNITY IMPACT

- 9.1 The St Kilda Marina Lease project will directly benefit the community members who use the facilities.



ORDINARY MEETING OF COUNCIL 20 NOVEMBER 2019

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 initiative 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 direct or indirect interest in the matter.

TRIM FILE NO: 34/11/19

ATTACHMENTS

1. Financial Statements with accompanying explanatory notes and Aged Debtor Balance Report
2. Budget requests - September 2019