



**14.2** QUARTERLY FINANCIAL REVIEW - MARCH 2018

**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 March 2018 Quarterly Financial Result.

**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 To ensure that the Council is agile in responding to issues and opportunities throughout the year while maintaining prudent financial management, officers have as reported in October 2017 introduced a quarterly budget review process to supplement our existing monthly forecasting outlined in the CEO Report.

2.3 Following the March 2018 quarter budget review, the organisation is projecting a full year net cash surplus of \$2.4 million which is \$2.0 million favourable compared to budgeted cash surplus of \$0.4 million.

**3. RECOMMENDATION**

That Council:

3.1 Notes that following the March 2018 Quarterly Budget review the organisation is projecting (a) a full year net cash surplus of \$2.4 million, which is \$2.0 million favourable compared to budgeted cash surplus of \$0.4 million and (b) a \$4.7 million improvement in the Net Operating Result including \$3.1 million of efficiency and budget savings.

3.2 Notes attachments 1 and 2 being the Comprehensive Income Statement Converted to Cash – March 2018 and accompanying explanatory notes.

**4. KEY POINTS/ISSUES**

4.1 The organisation carries out a quarterly review of all operating revenue and expenditure as well as the project portfolio.

4.2 The results of the March 2018 Quarterly Financial 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.

***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 The March 2018 Quarterly review expects Council to achieve a cumulative cash surplus for 2017/18 of \$2.4 million, an increase of \$2.0 million on Budget 2017/18 (Attachment 1).
- 4.5 The March 2018 Quarterly review identifies a net improvement to our operating result by \$4.7 million and includes \$3.1 million of efficiency and budget savings.
- \$2.0 million Palais Theatre redevelopment project savings which will be quarantined in reserves for future capital works.
  - \$0.3 million additional interest income due to treasury management achieving higher investment yields.
  - \$0.3 million ongoing WorkCover premium savings due to improved performance rating from reduced impact on premiums from the Street Cleaning program combined with an overall local government sector performance.
  - \$0.23 million Collaborative procurement of coin collection services for our parking ticket machines.
  - \$0.17 million Efficiency savings achieved from the implementation of our new disaster recovery site and new printer services.
  - \$8.8 million has been quarantined in reserves in accordance with legislative requirements (Open Space Contributions & Tied grants) and Council Strategies and Policies (Palais Theatre and Child Care Infrastructure Reserve).
- 4.6 Capital expenditure is projected to decrease by \$7.3 million from budgeted \$36.3 million to \$28.9 million. The main reasons are due to:
- (\$6.8 million) of project deferrals to 2018/19.
  - (\$2.5 million) budget reductions (not required or reduced scope) and savings from favourable tender prices than budgeted
  - \$0.9 million of additional expenditure
  - \$0.7 million of new projects.



- Details of forecast updates that impact the current financial year are set out in Attachment 2.

**Assessment against VAGO Financial Sustainability Indicators**

4.7 Council's decision-making reflects the principles of sound financial management, to ensure our financial position is sustainable. We assess our financial performance using the VAGO financial sustainability indicators.

4.8 The March 2018 review indicates an overall low risk financial sustainability rating for Council highlighted by the six VAGO financial indicators below.

Indicator	Budget 2017/18	Dec-2018	March 2018 review	March to Budget Variance	Risk
Net Result %	(3.0%)	(0.9%)	(0.7%)	2.3%	Medium
Working Capital %	202%	226%	241%	39%	Low
Internal Financing %	78%	99%	121%	43%	Low
Indebtedness %	5.8%	5.3%	5.3%	0.5%	Low
Capital Replacement %	148%	141%	118%	(30%)	Medium
Infrastructure Renewal Gap %	122%	115%	99%	(23%)	Medium
Overall financial sustainability risk rating	Low	Low	Low	No change	Low

**4.8.1 Net Result %:**

- A small deficit was budgeted for 2017/18 due to the inclusion of one-off expenditures including the Pride Centre, Ferrars Street Precinct works and relinquishing the Pickles St property on crown land.
- The March 2018 review shows Council is on track to deliver a small deficit, 0.7% of total income, an improvement to the budgeted position.

**4.8.2 Working Capital %:**

- The Budget 2017/18 forecast working capital ratio of 202%
- The actual financial position for 2016/17 compared favourable to the forecast position for 2016/17 when the 2017/18 budget was prepared. The March 2018 review shows a further improvement to 241%. Council has no issues in paying suppliers and employees when payments fall due.

**4.8.3 Internal Financing %:**

- The Budget 2017/18 includes one-off large expenditure payments for the Pride Centre and Ferrars Street precinct works which are partly funded from cash reserves set aside in prior years. Excluding these two items, the ratio would be above 100 per cent which is a low risk rating.



- The March 2018 review shows Council is on track to achieve budget.

4.8.4 ***Indebtedness %:***

- This indicator shows a low risk for Council as the ratio of 5.8% for Budget 2017/18 is significantly lower than the 40% target.
- The March 2018 review shows Council is on track to achieve budget.

4.8.5 ***Capital Replacement %:***

- The Budget 2017/18 ratio of 148% is very close to the 150% low risk target.
- The March 2018 review indicates a reduction in this ratio mainly due to \$6.8 million of project deferrals to 2018/19. The deferral funds are included in the draft Budget 2018/19 released for community consultation. The projected ratio in the draft budget for 2018/19 is 226%.

4.8.6 ***Infrastructure Renewal Gap %:***

- The Budget 2017/18 ratio of 122% indicates sufficient provision in the capital program for asset renewal and upgrade.
- The March 2018 review forecasts a decrease to 99%, which is slightly below the 100% required for a low risk rating. The projected ratio in the draft budget for 2018/19 is 127%

***Unbudgeted Initiatives***

- 4.9 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report.
- 4.10 There are no unbudgeted initiatives identified for Council consideration at the end of March quarter.

**5. CONSULTATION AND STAKEHOLDERS**

- 5.1 The budget review has been conducted after engagement with relevant stakeholders from across the organisation.

**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 projections resulting from the March 2018 review.

**7. FINANCIAL IMPACT**

- 7.1 The March 2018 budget review forecasts a year end cash surplus of \$2.4 million which is \$2.0 million above budget. There are no unbudgeted initiatives identified for Council consideration.



**8. ENVIRONMENTAL IMPACT**

8.1 Not applicable.

**9. COMMUNITY IMPACT**

9.1 Not applicable.

**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 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**

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 - March 2018
2. Notes to Comprehensive Income Statement converted to Cash - March 2018