



14.2 MID-YEAR FINANCIAL REVIEW 2017/18

EXECUTIVE MEMBER: CHRIS CARROLL, GENERAL MANAGER CUSTOMER & CORPORATE SERVICES
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1. PURPOSE

- 1.1 To provide Council with an overview of the results of the mid-year budget review for 2017/18 and obtain adoption of an unbudgeted initiative to support work on the Fishermans Bend Planning Scheme Amendments Program.

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 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.
- 2.5 Following the mid-year budget review, the organisation is projecting a full year net cash surplus of \$0.81 million which is \$0.44 million favourable compared to budgeted cash surplus of \$0.37 million.
- 2.6 As part of the mid-year budget review, the Executive Leadership Team has endorsed a proposal to seek Council approval of up to \$0.10 million of unbudgeted expenditure for the Fisherman's Bend Urban Renewal Area (FBURA) Planning Scheme Amendments Program.



3. RECOMMENDATION

That Council:

- 3.1 Notes that following the mid-year budget review the organisation is projecting (a) a full year net cash surplus of \$0.81 million which is \$0.44 million favourable compared to budgeted cash surplus of \$0.37 million and (b) a \$4.38 million improvement in the Net Operating Result including \$3.08 million of efficiency and budget savings.
- 3.2 Approves up to \$0.10 million of unbudgeted expenditure for the Fisherman's Bend Urban Renewal Area (FBURA) Planning Scheme Amendments Program noting this will be funded from the improved cash surplus and that the forecasts will be updated to reflect this change subject to its approval.
- 3.3 Notes attachments 1 and 2 being the Comprehensive Income Statement Converted to Cash – December 2017 and accompanying explanatory notes.

4. KEY POINTS/ISSUES

The mid-year financial review result

- 4.1 The organisation carries out a mid-year review of all operating revenue and expenditure as well as the project portfolio.
- 4.2 The results of the mid-year 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.
- 4.3 **Comprehensive Income Statement Converted to Cash**
 - We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
 - The Mid-year review expects Council to achieve a modest cumulative cash surplus for 2017/18 of \$0.81 million excluding the additional initiative subject to Council consideration, an increase of \$0.44 million on Budget 2017/18 (Attachment 1).
 - The Mid-year review identifies a net improvement to our operating result by \$4.43 million and includes \$3.08 million of efficiency and budget savings:
 - \$2.0 million Palais Theatre redevelopment project savings which will be quarantined in reserves for future capital works.



- \$0.5 million additional interest income due to treasury management achieving greater 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.
- \$4.0 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 Centre Infrastructure Reserve).
- Capital expenditure is projected to decrease by \$1.75 million from budgeted \$36.3 million to \$34.5 million. The main reasons are due to:
 - (\$2.66 million) project deferrals to 2018/19 – this will be in addition to the projected capital works program earmarked in our 10-Year Financial Outlook.
 - (\$1.33 million) budget reductions (not required or reduced scope) and savings from favourable tender prices than budgeted.
 - \$0.89 million of additional expenditure
 - \$1.66 million of new projects.
- Details of forecast updates that impact the current financial year are set out in Attachment 2.

4.4 Assessment against VAGO Financial Sustainability Indicators

- 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.
- The mid-year review indicates an overall low risk financial sustainability rating for Council highlighted by the six VAGO financial indicators below.

Indicator	Budget 2017/18	Mid-year review 2017/18	Variance	Risk
Net Result %	(3.0%)	(0.9%)	2.1%	Medium
Working Capital %	202%	226%	24%	Low
Internal Financing %	78%	99%	21%	Medium
Indebtedness %	5.8%	5.3%	0.5%	Low
Capital Replacement %	148%	141%	(7%)	Medium

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Infrastructure Renewal Gap %	122%	115%	(7%)	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

- **Net Result %:**
 - A small deficit was budgeted for 2017/18 due to the inclusion of one-off expenditures including the Pride Centre, Ferrars St Precinct works and relinquishing the Pickles St property on crown land.
 - The mid-year review shows Council is on track to deliver a small deficit, 0.9% of total income, an improvement to the budgeted position.
- **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 Mid-year review shows a further improvement to 226%. Council has no issues in paying suppliers and employees when payments fall due.
- **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 Mid-year review indicates Council is to achieve a ratio of 99%, compared favourably to budget by 21% largely due to additional capital funding and project deferrals to 2018/19.
- **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 Mid-year review shows Council is on track to achieve budget.
- **Capital Replacement %:**
 - The Budget 2017/18 ratio of 148% is very close to the 150% low risk target.
 - The Mid-year review indicates a reduction in this ratio mainly due to \$2.66 million of project deferrals to 2018/19. The deferrals funds will be added to the projected capital works program earmarked in our 10-Year Financial Outlook.
- **Infrastructure Renewal Gap %:**
 - The Budget 2017/18 ratio of 122% indicates sufficient provision in the capital program for asset renewal and upgrade.



- The Mid-year review forecasts a decrease to 115%. This still significantly above the 100% required for a low risk rating.
- 4.5 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.
- 4.6 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.
- 4.7 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.
- 4.8 Unbudgeted initiatives can be categorised as follows:
- **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.
 - **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.
 - **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.
 - **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.

- 4.9 The following unbudgeted initiative has been identified as part of the mid-year review for Council consideration:

Initiative	Investment Required 2017/18	Additional Investment Required in future years
FBURA Planning Scheme Amendments Program	\$100,000	Yes

Fisherman’s Bend Urban Renewal Area (FBURA) Planning Scheme Amendments Program (\$100,000)

The Issue: The State Government has appointed a Planning Review Panel to consider submissions to the draft Fishermans Bend Framework and Amendment GC81 (planning controls). A Panel process was not initially proposed by Government hence a budget allocation was not requested.

Council lodged its endorsed submission to the draft Framework and AmGC81 in December, and is now required to participate in the Panel process.

The Panel process provides Council with a key opportunity to influence the final planning scheme controls for Fishermans Bend, with these having a very significant impact on both development outcomes and the future delivery / funding of infrastructure for which Council will be the asset owner. Accordingly, it is critical that appropriate resources are allocated to present and support Council's case at the hearing. This will mitigate the risk of inappropriate or unclear controls, and also meet community expectations that Council advocate strongly on its behalf as custodians of the precinct.

The appointment of legal representation and experts to provide evidence at the Panel on; urban design, infrastructure delivery, sustainable design, affordable housing and water management (flood mitigation) is proposed. The City and Port Phillip and City of Melbourne will share expert witnesses where possible to provide a consistent position and minimise costs.

The Proposal: An additional \$100,000 be allocated to meet the estimated costs of legal representation and expert evidence to support Council's submission and presentation at the Planning Advisory Panel for AmGC81 - Fishermans Bend Planning Controls. Fifty percent of the total estimated cost of \$200,000 can be met by released funds already in the program budget.



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 Risk identified from failing to fully participate in the FBURA Planning Review Panel has been assessed and as a result the requested for additional funds has been included in this report.
- 6.2 As outlined in section 4.4, the Council's financial sustainability risk is considered low based on the projections resulting from the mid-year review.

7. FINANCIAL IMPACT

- 7.1 The mid-year review forecasts a year end cash surplus of \$0.81 million which is \$0.44 million above budget. This will be reduced by \$0.10 million subject to approval of the proposed unbudgeted initiative.

8. ENVIRONMENTAL IMPACT

- 8.1 The "FBURA Planning Scheme Amendments" initiative presents significant opportunity to influence the final planning framework for Fishermans Bend and via this environmental outcomes.

9. COMMUNITY IMPACT

- 9.1 The "FBURA Planning Scheme Amendments" initiative presents significant opportunity to influence the final planning framework for Fishermans Bend and via this community outcomes.

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*".
- 10.2 The unbudgeted funding proposal to support work on the FBURA Planning Scheme Amendment aligns with Direction 4 "We are growing and keeping our character" and the Transforming Fishermans Bend strategic priority.

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. 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: 34/02/46

ATTACHMENTS

- 1. Comprehensive Income Statement Converted to Cash**
- 2. Notes to Comprehensive Income Statement Converted to Cash**