



**FINANCIAL UPDATE - FIRST QUARTER 2022-23 FINANCIAL REVIEW**

**EXECUTIVE MEMBER:** BRIAN TEE, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE

**PREPARED BY:** SPYROS KARAMESINIS, HEAD OF MANAGEMENT ACCOUNTING AND FINANCIAL ANALYSIS

PETER LIU, CHIEF FINANCIAL OFFICER

**1. PURPOSE**

- 1.1 To provide Council with an overview of the results of the first quarter 2022/23 performance to budget and seek approval for several unbudgeted items to be funded from the surplus.

**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 between February through June using information and estimates available at the time.
- 2.2 Budget 2022/23 was adopted at the 29 June 2022 Special Council meeting. It included a business-as-usual approach on a path to recovery from COVID-19 pandemic. Budget 2022/23 also included significant changes due to the adoption of the 'Don't Waste It!' Waste Management Strategy 2022-2025 and the new Rating Strategy.
- 2.3 The first quarter Budget 2022/23 review expects Council to achieve a cumulative cash surplus for 2022/23 of \$1.69 million (excluding the additional initiatives subject to Council consideration), an increase of \$0.14 million on Budget 2022/23 (see Attachment 1).
- 2.4 The improvement in cash surplus is primarily driven by additional interest rates resulting in improved investment/interest performance, lower employee expenditure due to vacancies which will be used to fund the additional cost of the draft 2022-25 in-principle enterprise agreement.
- 2.5 As outlined in section 4, the Council's financial sustainability risk is expected to achieve an overall low risk rating based on projections resulting from the first quarter review (as budgeted). As we move towards a new COVID-19 normal, there are external and internal factors that may negatively impact our financial performance including high inflation which is increasing the cost base of our core services, ongoing enterprise agreement negotiations that are likely to result in an above budget impact and ongoing challenges with staff retention and recruitment. Strategies are in place to manage and mitigate the financial impact of these risks for 2022/23.



- 2.6 During the first quarter of 2022/23, ongoing efficiency savings of \$0.18 million were achieved and \$0.58 million one-off additional efficiency savings were achieved across successful capital project tenders (savings ringfenced in the Asset Renewal Fund).
- 2.7 The Project Portfolio has reduced by net \$2.7 million to a total of \$68.5 million. Year to date total portfolio spend of \$6.4m, \$0.6m less than year to date forecast with 91% of total forecast spend remaining for 2022/23 (see both portfolio achievements and deferrals outlined in Attachments 2)
- 2.8 As part of the first quarter budget review, funding requests totalling \$0.15 million are put forward for Council consideration. This is to be funded from the forecast cumulative cash surplus.

### 3. RECOMMENDATION

That Council:

- 3.1 Notes that following the first quarter 2022/23 budget review the organisation is projecting a full year cumulative cash surplus of \$1.69 million which is \$0.14 million favourable compared to budget of \$1.55 million.
- 3.2 Notes attachment 1 – Financial Statements with accompanying explanatory notes.
- 3.3 Notes attachment 2 – material portfolio deferrals and achievements including key reasons identified as part of the first quarter 2022/23 budget review.
- 3.4 Approves up to \$0.15 million of additional funding requests (see attachment 3 – September 2022 Budget Requests for more details) including:
  - 3.4.1 \$45,000 Program Lead – Safety Compliance for 1.5 years with a gross annual value of \$159,000.
  - 3.4.2 \$42,000 Sports and Recreation Equity Officer as an ongoing position with a gross annual value of \$110,000
  - 3.4.3 \$63,000 Senior Sports Club Liaison Officer as an ongoing position with a gross annual value of \$126,000

### 4. KEY POINTS/ISSUES

- 4.1 The organisation carries out a monthly review of all operating revenue and expenditure as well as the project portfolio.
- 4.2 The results of the first quarter 2022/23 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**

- 4.3 We use the Comprehensive Income Statement Converted to Cash to ensure prudent financial management by maintaining a modest cumulative cash surplus.
- 4.4 The first quarter 2022/23 review expects Council to achieve a cumulative cash surplus for 2022/23 of \$1.69 million (excluding the additional initiatives subject to Council consideration), an increase of \$0.14 million on Budget 2022/23 (Attachment 1).
- 4.5 The improvement in cash surplus is primarily caused by increasing interest rates resulting in improved investment/interest performance.
- 4.6 Lower employee expenditure due to staff vacancies. The organisation is facing a higher than the historical average staff vacancy rate, which is placing pressure on existing staff to respond to increased service volumes and backlogs to meet service levels and project delivery. Some roles are hard to recruit. However, these savings have been used to offset the net additional enterprise employee expenditure (including vacancies) required based on in principle enterprise agreement (subject to voting and Fair Work Australia)
- 4.7 While the cash surplus has improved, the forecast operating deficit has increased by \$1.13 million from \$3.38 million to \$4.51 million. Net revenue reduced by \$0.65 million and expenditure increased by \$0.48 million. Full details are contained in Attachment 1 for financial statements including full commentary on variances. The following section provides a high-level overview of key movements.
- 4.8 Net revenue reduction of \$0.65 million mainly due to:**
- 4.8.1 Reduction of \$0.65 million in grant and contribution income (timing only) predominately to grants received in advance in June 2022 after budget adoption for 2022/23. The impact of this has been offset in reserves.
- 4.8.2 Reduction of \$0.27 million in user and statutory fee income due to a reduced childcare centre fees due to lower utilisation (partially offset by reduced expenditure), the cancellation of South Melbourne Market Direct program (offset by reduced expenditure) and a slight increase in paid parking at the South Melbourne Market due to increasing utilisation.
- 4.8.3 Improvement of \$0.29 million in other income predominately due to increasing interest income due to favourable cash holdings and increasing investment yields from recent Reserve Bank increases to the cash rate.
- 4.9 Net expenditure reduction of \$0.49 million mainly due to:**
- 4.9.1 Net increase of \$0.19 million in employee costs due \$0.60 million additional employee costs required based on in principle enterprise agreement offset by



\$0.39 million lower employee costs and savings due to enterprise vacancy. Staff retention and recruitment remains a challenge as was the case in the 2021/22.

- 4.9.2 Net loss from forecast property sale and project write-offs increased by \$0.25 million. The cash proceeds will be ringfenced in Strategic Property Reserve.
- 4.9.3 Increase of \$1.65 million for 2021/22 operating project deferrals post budget adoption. Key deferrals include Department of Transport Pop Up Bike Lanes, COVID Safe Outdoor Activation Fund, Customer Experience Program, Electrical Line Clearance and Carlisle St Carparks Strategy Execution (offset by reserves)
- 4.9.4 Reduction of \$1.52m operating project deferrals to 2023/24 and future years including St Kilda Marina, Fishermans Bend Program and Temporary Park Lansdowne Road (offset by reserves)

**4.10 Net capital expenditure reduction of \$3.12 million mainly due to:**

- 4.10.1 2021/22 Deferrals post budget adoption of \$3.34 million including Public Toilet Program across various sites, Childcare Centre Fence Compliance, Bubup Nairn Cladding Rectification Works, Fleet Renewal Program, South Melbourne Market - The Courtyard, New Dog Park Moran Reserve and other minor deferrals.
- 4.10.2 Additional expenditure of \$0.99 million including for HVAC, Air and Energy Improvements Program, South Melbourne Town Hall Renewal Upgrade and Childcare Centre Fence Compliance and other minor changes.
- 4.10.3 Savings of \$0.51 million (ringfenced in Asset Renewal Fund) predominately due to efficiency savings achieved through successful tenders Kerb & Gutter Construction – Wilton Grove, Laneway Construction – Wellington Street and Alma Road/Lansdowne Road Safety Improvements.
- 4.10.4 Deferrals to 2023/24 and future years of \$7.25 million including EcoCentre Redevelopment, Palais Theatre and Luna Park Precinct, Access Control Renewal Council Buildings, Moubray Street Community Park, Building CCTV Program and other minor deferrals

**4.11 Net reserve drawdowns decreased by \$3.06 million due to:**

- 4.11.1 \$1.00 million increase replenish in the Strategic Property Reserve due to forecast property sales.
- 4.11.2 \$0.90 million lower drawdown on the St Kilda Marina Reserve due to project construction delays.



- 4.11.3 \$1.89 million lower net drawdown on project deferrals reserve due to \$5.1 million project deferrals for 2022/23 offset by \$3.2 million deferrals post budget 2022/23.
- 4.11.4 (\$0.31) million additional net drawdown to the Resort and Recreation Reserve predominantly due to deferrals post budget 2022/23 including New Dog Park MO Moran Reserve.
- 4.11.5 (\$0.20) million additional net drawdown to tied grants due to net project deferrals timing of receipt of funding including Victorian Grants Commission and Southside Live Event.
- 4.11.6 (\$0.20) million decrease replenish to internal borrowings repayment due to Council fully repaying the \$7.5 million loan in 2021/22.

4.12 Details of forecast updates that impact the current financial year are set out in Attachment 1.

**Assessment against VAGO Financial Sustainability Indicators**

- 4.13 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.
- 4.14 The first quarter 2022/23 review indicates an overall low risk financial sustainability rating for Council highlighted by the seven VAGO financial indicators below:

Indicator	Latest Forecast	Budget 2022/23	Variance	Risk
Net Result %	(1.9%)	(1.4%)	(0.5%)	Medium
Adjusted Underlying Result %	(6.7%)	(6.5%)	(0.2%)	High
Working Capital %	319%	344%	(25%)	Low
Internal Financing %	83%	56%	27%	Medium
Indebtedness %	1.3%	1.9%	0.6%	Low
Capital Replacement %	194%	215%	(21%)	Low
Infrastructure Renewal Gap %	163%	177%	(14%)	Low
<b>Overall financial sustainability risk rating</b>	<b>Low</b>	<b>Low</b>	<b>No Change</b>	<b>Low</b>

4.15 The indicators generally need to be considered from a medium-term trend perspective rather than annual basis. A medium rating over one or two years is acceptable particularly in response to an event such as COVID-19 but over the medium to long-term, Council aims to achieve a low risk rating overall

**4.16 Net Result %:**

- 4.16.1 The net result ratio assesses Council’s ability to generate enough funds for asset renewals.



- 4.16.2 A \$3.38 million operating deficit was budgeted for 2022/23 which assumed a business as usual approach on a path to recovery from COVID pandemic, however included significant operating project deferrals from 2022/23 (despite being reserve funded)
- 4.16.3 Net result % is currently (1.9%) with a medium risk rating predominately caused by the increase in forecast operating deficit to \$4.5 million. This is predominately caused by a reduction in grant income (received in advance in 2021/22) and the forecast net loss on disposal of property.

**4.17 Adjusted Underlying Result %:**

- 4.17.1 This assesses our ability to generate surplus in the ordinary course of business excluding non-recurrent capital grants and contributions to fund capital expenditure from net result.
- 4.17.2 An underlying deficit is normally budgeted due to the reliance on external funding/contributions to fund our infrastructure assets works. For instance, Open Space Contributions are collected, held in reserve to fund upgrades, expansion and new of public space.
- 4.17.3 The first quarter review forecasts a marginal high risk result due to the same factors highlighted in the Net Result ratio

**4.18 Workings Capital %:**

- 4.18.1 This working capital ratio assesses Council's ability to pay short-term liabilities as they fall due (current assets/ current liabilities).
- 4.18.2 Council has no working capital issues at the forecast 319% with a low risk rating. This has decreased slightly due to increased holdings on non-current financial assets including term deposits.

**4.19 Internal Financing %:**

- 4.19.1 The internal financial 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.
- 4.19.2 Internal financing has improved to 83% with a low risk rating primarily due to collection of outstanding rates and charges from the 2021/22 financial year and portfolio deferrals to 2023/24 both improving current year cashflow from operations.

**4.20 Indebtedness %:**



- 4.20.1 The indebtedness ratio assesses Council's ability to repay its non-current debt from its own source revenue.
- 4.20.2 This indicator shows a low risk for Council as the forecast ratio for 2022/23 of 1.3% which is significantly lower than the 40% target.

**4.21 Capital Replacement %:**

- 4.21.1 The capital replacement ratio assesses whether Council's overall cash spend in renewing, growing and improving its asset base is enough.
- 4.21.2 Capital replacement % has reduced slightly from budget to 194% with a low risk rating caused by project deferrals identified during the first quarter 2022/23 review process.

**4.22 Infrastructure Renewal Gap %:**

- 4.22.1 The infrastructure renewal gap ratio assesses Council's spend on its asset base is keeping up with the rate of asset depletion (depreciation).
- 4.22.2 Infrastructure renewal gap % has reduced slightly from budget to 163% with a low risk rating caused by project deferrals identified during the first quarter 2022/23 review process.

**Project Portfolio Update**

- 4.23 The Project Portfolio has reduced by net \$2.7 million to a total of \$68.5 million. Year to date total portfolio spend of \$6.4m, \$0.6m less than year to date forecast with 91% of total forecast spend remaining for 2022/23
- 4.24 Significant movement in portfolio forecast is caused by timing of delivery across financial years. The 2022/23 portfolio was increased by \$4.87 million of deferrals that occurred post budget 2022/23 adoption. This has however been offset by \$8.77 million of deferral to 2023/24 and future years identified over the first quarter.
- 4.25 See both portfolio achievements and first quarter 2022/23 project deferrals outlined in Attachment 2.

**First Quarter Unbudgeted Initiative Requests**

- 4.26 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report.
- 4.27 The following funding requests have been identified as part of the first quarter review for Council consideration (see attachment 3 – Budget Requests September 2021 for more details). Total budget requests of \$0.15 million will be funded from a drawdown on the cumulative cash surplus. If approved, the cumulative cash surplus will reduce from \$1.69 million to \$1.54 million for 2022/23.



**4.27.1 Program Lead – Safety Compliance**

In response to Victorian Government announcing its intention to implement new Regulations for Psychosocial Health a budget request for 1 FTE for 18 months is made to support the program and to ensure existing resources are able to continue overall implementation of the Safety Management System, key priorities in the annual plan, and assurance activities (e.g. audit program). This position has a gross annual value of \$126,000. A part year budget request of \$45,000 in 2022/23.

**4.27.2 Sports and Recreation Equity Officer**

This budget request is to lead the sports equity program under new legislative requirements under the Fair Access Policy Roadmap (2022). The new policy will be a key driver to promote culture change, allow all Victorians to participate in active opportunities, eliminate key barriers of participation and advance gender equality within society. The position is ongoing at 1 FTE with a gross annual value of \$110,000. A part year budget request of \$42,000 in 2022/23.

**4.27.3 Senior Sports Club Liaison Officer**

This budget request is required to support the proactive management of clubs and development of relationships to improve the customer service response and reduce complaints with a strong focus on stakeholder management. This position is ongoing at 1 FTE with a gross annual value of \$126,000. A part year budget request of \$63,000 in 2022/23.

**5. CONSULTATION AND STAKEHOLDERS**

5.1 The first quarter 2022/23 budget review and consideration of unbudgeted initiatives has been conducted after engagement with relevant stakeholders from across the business as required.

**6. LEGAL AND RISK IMPLICATIONS**

6.1 As outlined in section 4, the Council's financial sustainability risk is considered low based on projections resulting from the first quarter review (as budgeted). As we move towards a new COVID-19 normal, there are external and internal factors that may negatively impact our financial performance.

6.1.1 These risks include high inflation which is increasing the cost base of our core services, ongoing enterprise agreement negotiations likely result in an above budget impact and ongoing challenges with staff retention and recruitment.

6.1.2 Council is experiencing rising inflation pressures on goods, services and projects. Budget 22/23 included 4.5% inflation based on March 2022 CPI. However, actual CPI at June 22 reached 6.1% and is likely to continue climbing in 2022/23. With that in mind, we have placed strict financial controls in place to achieve allocated budget.





- 6.2 Project portfolio (including both capital and operating programs) continues to experience increasing delivery risks increased due to COVID-19 related issues such as internal staff resourcing, external dependencies, external approval, and statutory approvals.

**7. FINANCIAL IMPACT**

- 7.1 The first quarter review forecasts a year end cash surplus of \$1.69 million which is an increase on budget.
- 7.2 If Council approves the additional items recommended by the Executive Leadership Team, then the cash surplus will reduce from \$1.69 million to \$1.54 million.

**8. ENVIRONMENTAL IMPACT**

- 8.1 The first quarter review includes adjustments to Council’s project portfolio and considers delivery and environmental impacts.

**9. COMMUNITY IMPACT**

- 9.1 The updated financial information presented as part of the first quarter budget 2022/23 review including ongoing careful financial management will continue to deliver benefits to the community and support to the local economy.
- 9.2 The unbudgeted initiatives requested in section 4 will directly benefit the community members using local sports fields and those participating in local sports clubs. This will be achieved through improved equitable use of sporting clubs and facilities and through improved stakeholder management.

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

- 10.1 The first quarter Budget 2022/23 review supports strategic direction 5 – “Well Governed Port Phillip” as a city that is a leading local government authority, where our community and our organisation are in a better place as a result of our collective efforts. This review helps to ensure that Port Phillip Council is cost-effective, efficient and delivers with speed, simplicity, and confidence.

**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. 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 material or general interest in the matter.

**ATTACHMENTS**

- 1. Attachment 1 - First Quarter 2022-23 Financial Statements**
- 2. Attachment 2 - Material Portfolio Deferrals and Achievements  
First Quarter 2022-23**
- 3. Attachment 3 - Budget Requests September 2022**