



14.8 **MID-YEAR 2019/20 FINANCIAL REVIEW**

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

PREPARED BY: **PETER LIU, COORDINATOR MANAGEMENT ACCOUNTING & FINANCIAL ANALYSIS**

DENNIS O'KEEFFE, CHIEF FINANCIAL OFFICER

1. PURPOSE

- 1.1 To provide Council with an overview of the results of the 2019/20 mid-year financial review and seek approval for additional unbudgeted funding 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 mid-year 2019/20 review, the organisation is projecting a full year cumulative cash surplus of \$0.61 million which is \$0.17 million favourable compared to budgeted 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 \$0.91 million of additional efficiency savings at the mid-point of 2019/20.
- 2.5 Council's ongoing commitment to sound financial management including continuous productivity and efficiency improvements has enabled us to 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 Current forecast capital expenditure spend is expected to be \$4.66 million lower than budgeted. The Infrastructure Renewal Gap ratio is thus expected to decrease from the budgeted 136% to 113%.
- 2.7 As part of the mid-year review, the Executive Leadership Team has endorsed a proposal for Council approval of up to \$0.87 million of expenditure being brought forward from 2020/21 including Parking Technology (procurement and installation of in-ground parking sensors), Bubup Nairn Cladding Rectification, and Cora Graves Asbestos Removal.
- 2.8 The proposal to bring forward of the \$0.87 million expenditure is offset by an underspend in 2019/20 due to the identified project deferrals of \$6.43 million to 2020/21.



3. RECOMMENDATION

That Council:

- 3.1 Notes that following the mid-year 2019/20 budget review the organisation is projecting a full year cumulative cash surplus of \$0.61 million which is \$0.17 million favourable compared to budget of \$0.43 million.
- 3.2 Notes the enterprise efficiency savings of \$0.91 million achieved to the end of December 2019.
- 3.3 Notes attachment 1 – Financial Statements with accompanying explanatory notes and Aged Debtors Balance Report
- 3.4 Approves up to \$0.87 million of expenditure brought forward from 2020/21 (refer to attachment 2 Budget Requests – December 2019 for details) offset by \$6.43 million of identified net deferrals to 2020/21.

4. KEY POINTS/ISSUES

Mid-year 2019/20 financial result

- 4.1 The organisation performs monthly reviews of all operating revenue and expenditure as well as the project portfolio.
- 4.2 The results of the mid-year 2019/20 financial 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 mid-year 2019/20 financial review expects Council to achieve a cumulative cash surplus for 2019/20 of \$0.61 million (excluding the additional initiatives subject to Council consideration), an increase of \$0.17 million on Budget 2019/20.
- 4.2.5 We are forecasting a favourable operating result by \$5.27 million including \$0.91 million of efficiency and budget savings:
 - \$4.93 million of adjustment to reserves mainly due to the deferral of Customer Experience program expenditure to 2020/21, additional open space contributions from developments and the planned divestment of non-strategic right of way assets.
 - \$0.76 million of net favourable one-off adjustments.
 - (\$0.43) million of net unfavourable recurrent adjustments



- 4.2.6 Net Capital portfolio expenditure reduced by \$4.66 million.
- (\$1.10 million) of additional expenditure deferred from 2018/19.
 - \$0.86 million of budget reductions/savings.
 - (\$1.53 million) of budget increases including \$0.44 million of external funding.
 - \$7.07 million of net budget deferrals to 2020/21.
 - (\$0.64 million) of brought forward expenditure
- 4.2.7 Reserves drawdown is forecast to decrease by \$9.42 million mainly due to projects deferred to 2020/21, additional open space contributions from developments and the planned divestment of non-strategic right of way assets.
- 4.2.8 Details of forecast updates that impact the current financial year are set out in Attachment 1.

Assessments 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 mid-year 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	December 2019	Variance	Risk
Net Result %	(2.5%)	(0.2%)	2.3%	Low
Adjusted Underlying Result %	(6.6%)	(5.0%)	1.6%	Med
Working Capital %	223%	346%	123%	Low
Internal Financing %	67%	45%	(22%)	Med
Indebtedness %	4.9%	4.8%	0.1%	Low
Capital Replacement %	158%	139%	(19%)	Med
Infrastructure Renewal Gap %	136%	113%	(23%)	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 mid-year review forecasts an improvement to the operating result by \$5.27 million to a deficit of \$0.41 million, (0.2%) of total income. This is mainly due to \$3.3 million 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 significantly relies on external funding/contributions for our infrastructure assets.
- 4.2.16 The mid-year review forecast an improvement to the underlying deficit by \$3.3 million to \$11.0 million, (5.0%) 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 mid-year review shows an improvement to 346% mainly due to the bringing forward of creditor payments in June to clear out all creditor balances by year end to mitigate the risk of data migration issues with the new financial system going live on 1 July 2020. This payment run usually takes place in July.

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 mid-year review indicates Council is expected to achieve a ratio of 45%, which is a 22% decrease on budget. The main reason is bringing



forward creditor payments in June to clear out all creditor balances by year end to mitigate the risk of data migration issues with a new financial system going live on 1 July 2020.

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 mid-year 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 mid-year review indicates a reduction in this ratio to 139% mainly due to the net capital expenditure reduction of \$4.66 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 mid-year review forecasts a decrease to 113%. This is still above the 100% required for a low risk rating.

The mid-year financial review result

- 4.3 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals.
- 4.4 Several proposals to fast track completion of existing projects have been identified as part of the mid-year review for Council consideration totalling \$0.87 million:
 - 4.4.1 The Parking Technology Renewal and Upgrade program is an annual program that supports action 35 of the Move, Connect, Live Strategy and to ensure on-street parking assets are renewed and upgraded to support and protect the paid parking systems. The phase 3 of the program was planned to be delivered by 2020/21 to install 500 sensors, which will provide live data for more efficient management of parking. The Project Manager has the capacity to commence this phase in March, therefore proposes to bring forward \$250,000 from 2020/21.



- 4.4.2 The Bubup Nairm Cladding Rectification project was phased over two financial years 2019/20 and 2020/21 to remove cladding and replace with non-combustible material to minimise Council's exposure to litigation and ensure building users/ visitors are safe. The project is currently progressing ahead of schedule and officers propose to bring forward the works (\$0.51 million) to complete the project in 2019/20.
- 4.4.3 Works have been planned at Cora Graves for accessibility improvements and removal of asbestos over two financial years 2019/20 and 2020/21. Officers propose the asbestos component (\$0.11 million) of the work be brought forward to 2019/20 to ensure the property is safe.
- 4.4.4 The proposals will be offset by identified net deferrals to 2020/21.

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 bringing forward of expenditure for Bubup Nairm Cladding Rectification and Cora Graves Removal of Asbestos will address risks associated with legal, safety and finance.
- 6.2 As outlined 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 cumulative cash surplus of \$0.61 million which is \$0.17 million favourable compared to budget. Subject to Council approval, the funding of the proposed bringing forward portfolio expenditure to 2019/20 is offset by deferrals so 2020/21.

8. ENVIRONMENTAL IMPACT

- 8.1 There are no environmental impacts.

9. COMMUNITY IMPACT

- 9.1 The Bubup Nairm Cladding Rectification and Cora Graves Removal of Asbestos projects will address public safety issues and will directly benefit the community members who use the facilities.

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

ORDINARY MEETING OF COUNCIL 19 FEBRUARY 2020



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 - December 2019
2. Budget Requests - December 2019