



FINANCIAL UPDATE: FIRST QUARTER 2021-22 FINANCIAL REVIEW

EXECUTIVE MEMBER: CHRIS CARROLL, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE

PREPARED BY: PETER LIU, HEAD OF 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 first quarter 2021/22 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 over the February through May using information and estimates available at the time.
- 2.2 Budget 2021/22 was adopted at the 23 June 2021 Council meeting. It included a business as usual approach on a path to recovery from COVID-19 pandemic.
- 2.3 Budget 21/22 had some provisions for downside risk which included a 13% reduction on parking revenue and a greater than normal cumulative cash surplus of \$3.0 million (generally we carry a cumulative cash surplus of \$0.5m).
- 2.4 Since the budget was adopted, another pandemic lockdown has occurred.
- 2.5 The situation whilst dynamic with a degree of uncertainty and disruption, is being closely monitored, and we are continuously updating our financial forecasts based on trends and better information.
- 2.6 Council is maintaining agility. We are adjusting our service models and delivery modes where possible to continue to provide vital council services such as organising the St Kilda Festival to be held in a revised format, continuing to provide Click and Collect in a number of services including Library Services and South Melbourne Market.
- 2.7 In line with our commitment to supporting our community, an extension of the Economic and Social Recovery package totalling \$2.3 million was swiftly developed and adopted by Council at the 18 August meeting. This extension included commercial rent waivers, South Melbourne Market stallholder waivers, and footpath trading permit fee waivers. This builds on the \$1.7 million of budget allocation for those hit hardest by the pandemic which included targeted rates hardship waivers/deferment for the unemployed.



- 2.8 Some key indicators for our City indicate mixed messaging. Business Registrations grew in 2020/21 by 931 with some sectors thriving and some less so. Local Unemployment Rate of 5.3% in August 2021 dropped slightly from 5.4% in July. Whilst it is better than the 5.8% for the Greater Melbourne, it is materially higher than pre-COVID (3.3% to 3.8%). Our targeted rates support for the unemployed will assist those hit hardest. Residential building approvals for 2020/21 were in the upper range of prior financial years.
- 2.9 Following the first quarter Budget 2021/22 review, the organisation is projecting a full year net cumulative cash surplus of \$0.89 million. This is \$2.1 million lower than the budgeted cumulative cash surplus of \$3.0 million. The cash surplus is impacted by net revenue reductions of \$4.7 million (largely parking revenue) and the \$2.3 million of approved targeted support. This is partially offset by lower expenditure of \$0.9m and \$1.9 million of favourable carried forward cash surplus from 2020/21.
- 2.10 We have been advised recently of an additional \$1.6 million funding from the Victorian Government as part of their COVID Safe Outdoor Activation Fund (works, services and promotion of outdoor activation). Income and matching expenditure (cost neutral) have not been incorporated in this report.
- 2.11 As part of the first quarter budget review, funding requests totalling between \$0.46 million and \$0.56 million have been 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 2021/22 budget review the organisation is projecting a full year cumulative cash surplus of \$0.89 million which is \$2.11 million unfavourable compared to budget of \$3.01 million.
- 3.2 Notes attachment 1 – Financial Statements with accompanying explanatory notes and Economic and Social Recovery Spend.
- 3.3 Approves up to \$346,250 of additional funding request (\$84,000 funded from Palais reserve) (see attachment 2 – September 2021 Budget Requests for more details) including:
 - 3.3.1 \$152,000 Updated estimates for the Tenancy Relief Scheme to 31 December including additional \$84,000 for Palais Theatre (matching Palais reserve reduction) and \$68,000 for Sky Diving at Moran Reserve.
 - 3.3.2 \$78,400 Stokehouse Rent and Community Benefit Relief due to financial impact caused by COVID restrictions
 - 3.3.3 \$24,000 Sporting club and other licence fees at 50% waiver on 21/22 fees.
 - 3.3.4 \$70,000 for Trial of Dog Restriction changes at Port Melbourne Beaches.
 - 3.3.5 \$21,850 for Soap Dispenser Trial at Foreshore Public Toilets and other high profile sites.
- 3.4 Notes the following two options available to Council with respect to the Communal Food Organic Trial extension:
 - 3.4.1 Option a) \$110,000 Extension of Communal Food Organic Trial at existing sites from 1 December 2021 to 01 January 2023 (total \$188,000 over two financial year).
 - 3.4.2 Option b) \$204,000 Extension of Communal Food Organic Trial and expand to three additional sites from 1 December 2021 to 01 January 2023 (total \$344,000 over two financial year).
 - 3.4.3 Resolves to pursue Option.....[insert option] and delegates to the Chief Executive Officer implementation of this option.
- 3.5 Notes Council recently was notified of additional \$1.6 million of funding from the Victorian Government as part of their COVID Safe Outdoor Activation Fund. This funding is for works, services and promotion of outdoor activation. There are two separate streams of funding with different initiatives covered and Officers will work with Councillors to finalise spend in the coming weeks. Income and matching expenditure (neutral impact) are not included in the financial statements yet.
- 3.6 Notes that Mobile CCTV Trailer trial to address hoon driving and related antisocial behaviour will be funded from the COVID Safe Outdoor Activation grant funding in item 3.5.



- 3.7 In accordance with Section 97(3) of the Act the Chief Executive Officer supported by the Chief Financial Officer concludes that a revised budget for 2021/22 is not required.

4. KEY POINTS/ISSUES

The First Quarter 2021/22 Financial Result

- 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 2021/22 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 2021/22 review expects Council to achieve a cumulative cash surplus for 2021/22 of \$0.89 million (excluding the additional initiatives subject to Council consideration), a decrease of \$2.11 million on Budget 2021/22 (Attachment 1).
- 4.2.5 A net unfavourable operating result by \$3.28 million:
- Net revenue reduction of \$5.04 million mostly due to COVID-19 lockdown restrictions impacted parking revenue, rent from commercial tenants, market stallholder rent and hall hire.
 - Favourable \$2.40 million of Open Space contributions from property development to be ringfenced in reserves and unexpected supplementary rates \$0.48 million (budget reduced for expected COVID-19 delays) are favourable offsets.
 - Net expenditure reduction of \$1.76 million due to enterprise vacant positions not filled during the lockdown period and or difficult to recruit in sectors such as project management, lower expenditure related to lower parking revenue (doubtful debts, registrations of infringements), and lower building maintenance expenditure caused by service closures and lower utilisation of facilities, and greater proceeds from sale of fleet used for capital purchase of street sweepers and community buses which are currently leased.
- 4.2.6 Net Capital Portfolio spend increased by \$0.24m mainly due to:
- \$2.82 million additional expenditure for: fleet replacement including the purchase of street sweepers and community buses currently



leased. Key benefits including lower financing costs \$0.04 million, reduced carbon emissions from investment in hybrid/electric vehicles and safer fleet. Other expenditure included wall mounted air filtration units in childcare centres to mitigate COVID-19 risk and Childcare Centre Fence Compliance funded from Childcare Reserve.

- \$1.76 million Net reduction of project deferrals from 2020/21 and to 2022/23 mainly delays caused by COVID-19 restrictions and procurement issues included South Melbourne Town Hall Renewal/Upgrade works, Access Control Renewal at Council Buildings and Inkerman Street Bike Corridor.
- \$0.87 million of Projects not going ahead/savings including Cora Graves Accessibility (future use under consideration), Blackspot Safety Improvement at Alma Road and Alexandra Street which was subject to external funding, favourable tender pricing at Point Ormond Playground than expected, and Station Pier Boardwalk and Jetty Renewal is now confirmed to be the responsibility of Ports Victoria.

4.2.7 Reserves drawdown decreased by \$0.59 million due to:

- \$1.72 million of drawdown on tied grants received in 2020/21 including Victorian Grants Commission funding and Wattie Watson Oval reconstruction. 2021/22.
- \$1.24 million of drawdown on project deferrals from 2020/21 including Activation of Public Space and Customer Experience Program.
- \$1.08 million of Childcare Infrastructure reserve drawdown for Fence compliance and wall mounted air filtration units to mitigate COVID-19 risk.
- \$2.53 million increase to the Resort and Recreation Reserve from additional Development Contributions.
- \$2.03 million increase of project deferrals to 2022/23 including South Melbourne Town Hall Renewal/Upgrade and Access Control Renewal for Council Buildings.

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 2021/22 review indicates an overall low risk financial sustainability rating for Council highlighted by the seven VAGO financial indicators below:



Indicator	Budget 2021/22	September 2021	Variance	Risk
Net Result %	4.0%	2.7%	(1.3%)	Low
Adjusted Underlying Result %	(2.0%)	(4.5%)	(2.5%)	High
Working Capital %	329%	330%	1%	Low
Internal Financing %	125%	124%	(1%)	Low
Indebtedness %	2.0%	1.9%	0.1%	Low
Capital Replacement %	161%	156%	(5%)	Low
Infrastructure Renewal Gap %	144%	145%	1%	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

4.2.11 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.

Net Result %:

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

4.2.13 A \$9.75 million operating surplus was budgeted for 2021/22 which assumed a business as usual approach on a path to recovery from COVID pandemic.

4.2.14 The first quarter review forecasts a \$3.28 million deterioration to the full year operating result to \$6.47 million, (1.3%) of total income. This is mainly due to the financial impact from COVID-19 lockdown restrictions on parking revenue totalling \$4.7 million, additional \$2.3 million of targeted Economic and Social Recovery Package which have been partially offset by lower expenditure.

Adjusted Underlying Result %:

4.2.15 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.

4.2.16 An underlying deficit is normally budgeted 2021/22 due to our relies 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.

- 4.2.17 The first quarter review forecasts a marginal unfavourable result due to the same factors highlighted in the Net Result ratio.

Work Capital %:

- 4.2.18 This working capital ratio assesses Council's ability to pay short-term liabilities as they fall due (current assets/ current liabilities).
- 4.2.19 The Budget 2021/22 includes a working capital ratio of 329%.
- 4.2.20 The first quarter review shows a marginal improvement to 330% mainly due to deferred capital expenditure to be incurred in 2022/23.

Internal Financial %:

- 4.2.21 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.
- 4.2.22 The Budget 2021/22 includes a 125% ratio.
- 4.2.23 The first quarter review indicates Council is expected to achieve a ratio of 124%, which is on track to achieve budget.

Indebtedness %:

- 4.2.24 The indebtedness ratio assesses Council's ability to repay its non-current debt from its own source revenue.
- 4.2.25 This indicator shows a low risk for Council as the ratio of 2.0% for Budget 2021/22 is significantly lower than the 40% target.
- 4.2.26 The first quarter review shows Council is on track to achieve budget.

Capital Replacement %:

- 4.2.27 The capital replacement ratio assesses whether Council's overall cash spend in renewing, growing and improving its asset base is enough.
- 4.2.28 The Budget 2021/22 includes a ratio of 161%.
- 4.2.29 The first quarter review indicates a reduction to 156% mainly due to the rescheduling of projects to the latter part of the year, which means cash outlay will be lower.

Infrastructure Renewal Gap %:

- 4.2.30 The infrastructure renewal gap ratio assesses Council's spend on its asset base is keeping up with the rate of asset depletion (depreciation).
- 4.2.31 The Budget 2021/22 ratio of 144% indicates enough provision in the capital program for asset renewal and upgrade.
- 4.2.32 The first quarter review forecasts a minor improvement to 145%. We are on track to achieve budget.



The first quarter financial review result

- 4.3 The quarterly review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report.
- 4.4 Officers have commenced recruitment of an ongoing Graduate Arborist position, at a cost of \$43,300 for six months in 2021/22, to assist with ongoing compliance with Electricity safety (Electric Line Clearance) Regulations following Energy Safe Victoria audit and increased volume of service requests and internal referrals.

Over the last three years workload has steadily increased by approximately 30% from 1,000 to 1,300 per annum.

Internal referrals also increased from Statutory Planning, City Permits, Children Services and Open Space Services.

Recent Energy Safe Victoria Audit has resulted in a significant increase in the workload for electric line clearance program with extremely tight deadlines.

This additional resource will provide support to the team and help manage workloads, ensuring the team can provide high quality customer service to both internal and external customers. It will ensure Council's compliance with the Electricity Safety (Electric Line Clearance) Regulations and help create a pathway for future arborists.

Without the additional resource, the backlog of CRs will remain high, poor customer service outcomes will continue and the Parks team may be forced to outsource much of its workload, at considerable expense, putting Council's reputation at significant risk due to community expectations (loss of confidence) and non-compliance with the Regulations.

- 4.5 Funding requests have been identified as part of the first quarter review for Council consideration totalling \$0.46 million to \$0.55 million (see attachment 2 – Budget Requests September 2021 for more details).

- 4.5.1 A budget request totalling \$254,400 for rental and other relief as a part of the Economic and Social Recovery Package due to COVID restrictions based on latest information for the following items:

- Council approved rent waivers for the Palais Theatre up to an estimated cost of \$296,000 for the period July to December 2021 at approximately 65% rent waiver. Advanced bookings are required for venues like the Palais Theatre; therefore, recovery is slower. The extended lockdown with the current support to Palais is expected to be approximately \$380,000 (80%) to Dec 2021, which is \$84,000 greater than the initial estimate.

Council has provided \$1.248 million to date to the Palais in rent relief due to COVID restrictions.

The additional \$84,000 relief will be offset by a lower replenishment of the Palais Theatre reserve which is used to fund future capital renewal works.



- A request for rent waiver for Sky Diving Drop Zone at Moran Reserve St Kilda estimated at approximately \$68,000. This request meets the eligibility criteria under the Commercial Tenants Relief Scheme (CTRS) however this was not included in the original estimates.

A skydiving permit is issued under an Expression of Interest process on a three-year tenure. 2021/22 Permit fee is set at \$180,000 per annum plus a participant fee at \$2.40 per adult and \$1.60 per child.

- A request for waiver up to \$78,400 (GST exclusive) for the Stokehouse to assist in the recovery from the coronavirus pandemic, is proposed to include:
 - Proportional rent relief based on reduction in turnover for the period 1 January 2021 to 31 May 2021, estimated at \$45,000 inclusive of GST and
 - A full waiver of Community Benefit fees for the period 1 April 2021 to 31 December 2021 to the value of \$41,250 inclusive of GST.

The Stokegroup has received financial support of \$534,000 inclusive of GST to date in the form of rental and Community Benefit payment waivers through Council's COVID19 support schemes in 2020 and 2021 and will continue to receive proportional rent relief in the form of rent waivers until the end of the Updated Council Scheme on to 15 January 2022.

The Stokegroup has requested additional support from Council to assist their economic recovery due to: the scale of the restaurant operation (three restaurants in the one building) and costs of opening and closing for each lockdown; the large number of staff (200); the significant holding costs due to the recent rebuild and ongoing investment for the 5-star green rating; the difficulties in pivoting to takeaway service and the reliance on national and international visitors to maximise their custom in peak periods.

- A request for waiver support for sporting club fees \$19,000 and other sports and recreation license fees \$5,000 for COVID-19 restrictions on access to facilities.

4.5.2 A budget request for trial of Dog Restriction changes at Port Melbourne Beaches at an estimated cost of \$70,000. This sum relates to a council item to be considered at the same council meeting. It will cover project management, administration, legal expenses and the community consultation and trial evaluation.

4.5.3 A budget request for a four-month trial of Soap Dispenser at Foreshore Public toilets and other high profile sites from 1 December 2021 at an estimated cost of \$21,850.



- In 2015 Council ceased providing soap and paper towel dispensers in all public toilets due to vandalism, graffiti and theft. Pandemic has heightened hygiene practices and expectations within the community.
- Officers will report back after trial in April for options for consideration alongside budget 2022/23 development.

4.5.4 The current Communal Food Organics (COFO) trial commenced in April 2021 at three reserves (HR Johnson, Lagoon and Rats of Tobruk), is scheduled to end on 30 November 2021, followed by a period of evaluation.

There is a demonstrated demand for the service, which started with 2x 240L bins at each site, emptied weekly, which has now increased to 8x 120L bins at each site, emptied twice weekly

Options available to Council with respect to the Communal Organic Trial Extension to 01 January 2023:

- Option a) \$110,000 (total \$188,000 over two financial years) to extend trial at existing sites for the continuation of the current Communal Food Organics (COFO) trial to 1 January 2023. Current trial ends on 30 November 2021.
- Option b) \$204,000 (total \$344,000 over two financial years) for extend trial at existing sites plus three more sites: Walter Reserve, Port Melbourne; Clarke Reserve, Elwood; Hewison Reserve, East St Kilda.

These sites have been recommended by officers as they meet the trial objectives of testing this option in areas of high to mid-density housing and SUDs with little or no space to store an additional bin. Further, they consider equitable distribution across the three Council Wards. This aligns with strategic directions in the review of Don't Waste It!

4.6 The total cost for all recommended initiatives is between \$0.46 million and \$0.56 million. \$0.08 will be funded from lower replenishment of the Palais Theatre reserve. The remainder \$0.38 million or \$0.47 million is to be funded from Cumulative Cash Surplus currently forecast of \$0.89 million, leaving approximately \$0.38 million or \$0.48 million of cumulative cash surplus.

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.
- 5.2 The targeted economic and social recovery support are consistent with previous Council endorsements and those impacted by COVID-19 restrictions (tenants and sporting clubs).



6. LEGAL AND RISK IMPLICATIONS

- 6.1 Additional expenditure to recruit a Graduate Arborist for safety, compliance with Electrical Line Clearance regulations, and will assist with increased volume of service requests.
- 6.2 The targeted economic and social recovery support complies with the Commercial Tenants Relief Scheme mandated by the Victorian Government.
- 6.3 The COFO trial extension is key part of future strategy on waste. This will assist in the transition to the future waste services.
- 6.4 The Soap Dispenser Trial at Foreshore Public Toilets will enhance community safety particularly with heightened hygiene practices from the pandemic.
- 6.5 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). While we are hopeful of a progressive recovery from COVID-19, there is still high levels of uncertainty and the broader social and economic impacts are likely to be felt for years not months. Maintaining some financial buffer and budget agility to respond to changing circumstances will be important.

7. FINANCIAL IMPACT

- 7.1 The first quarter review forecasts a year end cash surplus of \$0.89 million which is lower than budget.
- 7.2 If Council approves the additional items recommended by the Executive Leadership Team, then the cash surplus will reduce to \$0.38 million or \$0.48 million.
- 7.3 Notes Council recently was notified of additional \$1.57 million of funding from the Victorian Government as part of their COVID Safe Outdoor Activation Fund. This funding is for works, services and promotion of outdoor activation. There are two separate streams of funding with different initiatives covered and Officers will work with Councillors to finalise spend in the coming weeks. Income and matching expenditure (neutral impact) are not included in the financial statements presented. The Mobile CCTV Trailer trial will be funded from this program.

8. ENVIRONMENTAL IMPACT

- 8.1 The COFO trial supports our Don’t Waste It! Strategy to encourage waste diversion from landfills.

9. COMMUNITY IMPACT

- 9.1 The proposed initiatives will directly benefit the community members and support to the local economy.

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 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 The General Manager Customer, Operations and Infrastructure has previously declared a potential interest in funding matters relating to the Palais Theatre (included in this report). The officer, while responsible for oversight of Council’s financial operations, has had responsibility for matters associated with the Palais Theatre assigned to another senior officer of Council.

12.2 No other officers involved in the preparation of this report have any direct or indirect interest in the matter.

ATTACHMENTS

- 1. Financial Statements with accompanying notes and Economic and Social Recovery Spend**
- 2. September 2021 Budget Requests**