



13.4 FINANCIAL UPDATE: THIRD QUARTER 2021-22 FINANCIAL REVIEW

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

**PREPARED BY: JENNIFER BLUNT, HEAD OF FINANCE PROJECTS
PETER LIU, HEAD OF MANAGEMENT ACCOUNTING & FINANCIAL ANALYSIS
JAY WINTERTON, COORDINATOR EPMO
GEORGE KOMPOS, SENIOR FINANCIAL S&P ADVISOR**

1. PURPOSE

1.1 To provide Council with an overview of the results of the third quarter 2021/22 performance to budget.

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 during 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 and the Omicron variant has created further disruption and increasing challenges for our community.
- 2.5 The situation whilst dynamic with a degree of uncertainty, 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, two further extensions of the Economic and Social Recovery package totalling \$2.9 million was swiftly developed and adopted by Council at the 18 August meeting and 16 February Meeting. These extensions included commercial rent waivers, South Melbourne Market stallholder waivers, and footpath trading permit fee waivers. They build 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 economic indicators show mixed results in more recent months for our City.
- Our Local Unemployment Rate of 3.5 percent in March 2022, an improving trend, is within the pre-covid-19 range between 3.3 to 3.8 percent.

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- Net business registrations increased by 828 in the last six months to December 2021.
 - Value of Building approvals to February 2022 is \$747 million, which is at similar levels to the last four-year average.
 - March to March 2022 inflation for Melbourne is 4.5%. Compared to the rates cap of 1.5%, this places pressure on our financial position.
- 2.9 Following the third quarter Budget 2021/22 review, the organisation is projecting a full year net cumulative cash surplus of \$3.91 million. This is \$0.91 million higher than the budgeted cumulative cash surplus of \$3.0 million.
- 2.10 The improved forecast cumulative cash surplus is largely due to:
- Additional \$1.9 million carried forward surplus from 2020/21.
 - A forecast net reduction in parking income for COVID-19 related impacts \$4.9 million (PINs \$3.4 million and paid parking \$1.6 million).
 - Additional social and economic initiatives of \$2.9 million approved by Council in August 2021 and February 2022.
 - A forecast \$1.9 million reduction in employee costs relating to temporary staff vacancies across the organisation.
 - Various savings across the organisation including permanent efficiency savings of \$1.5 million, one off project portfolio savings of \$2.3 million and current year operational savings of \$1.1 million. Details of these savings are documented in Attachment 1.
- 2.11 The third quarter 2021/22 financial statements reflect the latest status of Council's project portfolio and an overall improvement to the forecast accumulated cash surplus of \$0.2 million and includes the following adjustments:
- Project portfolio deferrals of \$10.56 million for expenditure to occur in the 2022/23 financial year and funding transferred to Reserves resulting in a zero impact to the accumulated cash surplus for 2021/22. The delays are largely related to the impacts of COVID-19 on resourcing, procurement, external statutory permit approvals and supply chain issues.
 - The receipt of \$1.22 million external funding from the Department of Transport for pop-up bike lanes and Bank Street parking reconfiguration which offsets project expenditure.
 - A further \$0.82 million savings in the third quarter relating to Stormwater Capital Works due to project descoping, savings across the Public Toilet Program due to prefabricated construction and other minor savings across the capital portfolio.
- 2.12 The 2021/22 full year cumulative cash surplus of \$3.91 million includes \$0.6 million capital portfolio savings that will be transferred to the Asset Renewal reserve and the full year cumulative cash surplus forecast will be revised to \$3.31 million after this adjustment.



3. RECOMMENDATION

That Council:

- 3.1 Notes that following the third quarter 2021/22 budget review the organisation is projecting a full year cumulative cash surplus of \$3.91 million which is \$0.91 million favourable compared to budget of \$3.0 million.
- 3.2 Notes the full year cumulative cash surplus of \$3.91 million includes \$0.6 million capital portfolio savings that will be transferred to the Asset Renewal reserve and the full year cumulative cash surplus forecast will be revised to \$3.31 million.
- 3.3 Notes the third quarter 2021/22 budget review includes \$10.56 million of project portfolio deferrals to 2022/23 financial year.
- 3.4 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.
- 3.5 Notes Attachment 1 – Financial Statements with accompanying explanatory notes and Economic and Social Recovery Spend.

4. KEY POINTS/ISSUES

The Third 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 third 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 third quarter 2021/22 review expects Council to achieve a cumulative cash surplus for 2021/22 of \$3.91 million and an increase of \$0.91 million on Budget 2021/22 and includes the most recent adjustments for Council project portfolio (Attachment 1).
- 4.2.5 The 2021/22 full year cumulative cash surplus of \$3.91 million includes \$0.6 million capital portfolio savings that will be transferred to the Asset Renewal reserve and the full year cumulative cash surplus forecast will be revised to \$3.31 million.
- 4.2.6 The Comprehensive Income Statement Converted to Cash notes a net favourable operating result of \$5.37 million on Budget 2021/22:
 - Net revenue reduction of \$3.02 million mostly due to COVID-19 lockdown restrictions impacting parking revenue, rent from commercial tenants, market stallholder rent, footpath trading permit fee waivers and hall hire.

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- Favourable \$4.17 million of Open Space contributions from property development to be ringfenced in reserves and unexpected supplementary rates \$0.62 million (budget reduced for expected COVID-19 delays) are favourable offsets.
 - Net expenditure reduction of \$8.4 million due to \$1.7 million of operating projects deferred to 2022/23, \$2.4 million reduction in operating expenditure component of capital projects linked to projects being deferred to 2022/23. \$1.3 million relating to temporary staff vacancies not filled during the lockdown period and or difficult to recruit in sectors such as project management and lower expenditure related to lower parking revenue (doubtful debts, registrations of infringements), 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.
- 4.2.7 Net Capital spend decreased by \$10.8 million compared to Budget 2021/22 mainly due to:
- \$3.3 million additional expenditure for:
 - Fleet replacement of \$1.42 million 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.
 - Childcare Centre Fence Compliance (Childcare Reserve funded) \$0.44m, wall mounted air filtration units in childcare centres to mitigate COVID-19 risk \$0.42m and
 - Wattie Watson Oval Reconstruction \$0.31m for ongoing soil contamination issues and revised tender costs and other minor changes
 - \$12.8 million net reduction caused by project deferrals from 2020/21 to 2022/23 mainly due to delays caused by COVID-19, resourcing and procurement, external permit approvals and supply chain issues impacting the South Melbourne Town Hall Renewal/Upgrade works, Palais Theatre Concrete Spalling, Access Control Renewal at Council Buildings, Alma Park Play Space Upgrade and Domain Precinct – Park St Bike Link, Elwood Foreshore Public Space Lighting, Childcare Centre Fence Compliance works, Building CCTV Project, Building Safety Corrective Action Response and 2021/22 Stormwater Capital Works. Refer to Attachment 1 for further detail.
 - \$1.1 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), Stormwater Capital Works (due to project descoping), savings across the Public Toilet Program (due to prefab construction) and other minor savings across the capital portfolio.



- Noting that \$0.6m of capital savings from third quarter financial review are to be ringfenced in the Asset Renewal reserve.

4.2.8 Reserves replenishment increased by \$22.2 million due to:

- \$8.4 million net increase of project deferrals to 2022/23 including the South Melbourne Town Hall Renewal/Upgrade works, Palais Theatre Concrete Spalling, Access Control Renewal at Council Buildings, Alma Park Play Space Upgrade and Domain Precinct – Park St Bike Link, Elwood Foreshore Public Space Lighting, Building CCTV Project, Building Safety Corrective Action Response and 2021/22 Stormwater Capital Works, this is offset by additional drawdown on project deferrals from 2020/21 including Activation of Public Space and Customer Experience Program (\$1.58m).
- \$7.9 million increase to the Strategic Property Reserve for forecast property sale income
- \$5.4 million net increase to the Resort and Recreation Reserve from additional Development Contributions (\$4m) and lower drawdown on reserve due to project deferrals to 2022/23
- \$1.4 million net increase to the Asset Renewal Fund achieved through a project savings including Road Resurfacing Program and Stormwater Capital works and minor project deferrals to 2022/23
- \$1.1 million of drawdown on tied grants received in 2020/21 including Victorian Grants Commission funding and partial pre-payment of 2022/23 allocations received in 2021/22, Wattie Watson Oval reconstruction, Point Ormond Playground and South Melbourne Market External Food Hall Upgrade.
- \$0.7 million lower net drawdown on the Sustainable Transport Reserve due to savings achieved for the Garden City Bike path and external funding received for the Department of Transport funding for the Inner Melbourne Cycling Investment Program
- \$0.7 million lower net drawdown on the Palais Theatre Reserve due to deferrals to 2022/23 including Palais Theatre Concrete Palling and Tunnels Rectification Projects
- (\$3.3) million drawdown on the childcare centre infrastructure reserve due to additional expenditure for Childcare Centre Fence Compliance works (\$0.44m), wall mounted air filtration units in childcare centres to mitigate COVID-19 risk (\$0.42m) and delays in proposed sale of council owned childcare centre (\$2.7m)

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

Assessment against VAGO Financial Sustainability Indicators

4.2.10 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.



4.2.11 The third 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	March 2022	Variance	Risk
Net Result %	4.0%	6.5%	2.5%	Low
Adjusted Underlying Result %	(2.0%)	(1.0%)	1.0%	High
Working Capital %	329%	388%	59%	Low
Internal Financing %	125%	342%	214%	Low
Indebtedness %	2.0%	1.9%	0.1%	Low
Capital Replacement %	161%	108%	(53.0%)	Medium
Infrastructure Renewal Gap %	144%	102%	(42.0%)	Low
Overall financial sustainability risk rating	Low	Low	No change	Low

4.2.12 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 %:

- 4.2.13 The net result ratio assesses Council’s ability to generate enough funds for asset renewals.
- 4.2.14 A \$10.25 million operating surplus was budgeted for 2021/22 which assumed a business as usual approach on a path to recovery from COVID pandemic.
- 4.2.15 The third quarter review forecasts a \$5.4 million improvement to the full year operating result to \$15.6 million. This is mainly due to \$4.1 million additional open space contributions offset by the impact of COVID restrictions; lower parking income by \$4.9 million and \$2.9 million of further targeted support and \$2.4 million reduction in operating expenditure component of capital projects linked to projects being deferred to 2022/23 and \$1.7 million operating project portfolio deferrals to 2022/23.

Adjusted Underlying Result %:

- 4.2.16 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.
- 4.2.17 An underlying deficit is normally budgeted 2021/22 due to our 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.
- 4.2.18 The third quarter review forecasts a marginal unfavourable result due to the same factors highlighted in the Net Result ratio excluding the additional open space contributions.



Work Capital %:

- 4.2.19 This working capital ratio assesses Council's ability to pay short-term liabilities as they fall due (current assets/ current liabilities).
- 4.2.20 The Budget 2021/22 includes a working capital ratio of 329%.
- 4.2.21 The third quarter review shows an improvement to 388% mainly due to deferred capital expenditure to be incurred in 2022/23.

Internal Financial %:

- 4.2.22 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.
- 4.2.23 The Budget 2021/22 includes a 125% ratio.
- 4.2.24 The third quarter review indicates Council is expected to achieve a ratio of 342%, which is due to \$10.56 million of project deferrals to future years.

Indebtedness %:

- 4.2.25 The indebtedness ratio assesses Council's ability to repay its non-current debt from its own source revenue.
- 4.2.26 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.
- 4.2.27 The third quarter review shows Council is on track to achieve budget.

Capital Replacement %:

- 4.2.28 The capital replacement ratio assesses whether Council's overall cash spend in renewing, growing and improving its asset base is enough.
- 4.2.29 The Budget 2021/22 includes a ratio of 161%.
- 4.2.30 The third quarter review indicates a reduction to 108% mainly due to the deferral of capital project expenditure to 2022/23, which means cash outlay will be lower in 2021/22.

Infrastructure Renewal Gap %:

- 4.2.31 The infrastructure renewal gap ratio assesses Council's spend on its asset base is keeping up with the rate of asset depletion (depreciation).
- 4.2.32 The Budget 2021/22 ratio of 144% indicates enough provision in the capital program for asset renewal and upgrade.
- 4.2.33 The third quarter review forecasts a reduction to 102% due to the deferral of capital project expenditure to 2022/23.

The third 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 There are no proposed additional funding requests included for the third quarter review for Council's consideration.



5. CONSULTATION AND STAKEHOLDERS

- 5.1 The budget review and consideration of unbudgeted initiatives has been conducted with engagement from 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).
- 5.3 Council's project portfolio review and deferrals to 2022/23 have been reviewed by key stakeholders and the Executive Leadership Team.

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 third 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.
- 6.2 Capital program delivery risk increased due to COVID-19 related issues such as supply chain delays, construction sector disruptions, as well as internal resourcing issues including difficult in retaining and recruiting project managers.

7. FINANCIAL IMPACT

- 7.1 The third quarter review forecasts a year end cash surplus of \$3.31 million after \$0.6 million of portfolio savings transferred to the Asset Renewal Reserve, which is \$0.31m higher than budget.
- 7.2 The third quarter review includes adjustments to Council's project portfolio as recommended by the Executive Team with a net improvement of \$0.2 million to the cash surplus.

8. ENVIRONMENTAL IMPACT

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

9. COMMUNITY IMPACT

- 9.1 The proposed updates to Council's project highlights project savings, additional funding received and project deferrals and will deliver benefits to the community and support to the local economy in the long term.

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 No other officers involved in the preparation of this report have any material or general interest in the matter.

ATTACHMENTS

1. Third Quarter 2021/22 Financial Statements