



13.2 **FINANCIAL UPDATE: SECOND QUARTER 2021-22
FINANCIAL REVIEW**

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

PREPARED BY: **JENNIFER BLUNT, HEAD OF MANAGEMENT ACCOUNTING &
FINANCIAL ANALYSIS**
PETER LIU, CHIEF FINANCIAL OFFICER

1. PURPOSE

- 1.1 To provide Council with an overview of the results of the second 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 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, 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 economic indicators show mixed results in more recent months for our City. Our Local Unemployment Rate of 4.9% in December 2021 remains steady after a significant drop from 5.2% in October. Whilst it is better than the 5.4% 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 at 93 for year to date 2021/22 indicate a slow start to the financial year and will need continued monitoring to assess impact of population and behaviour trends.
- 2.9 Following the second quarter Budget 2021/22 review, the organisation is projecting a full year net cumulative cash surplus of \$2.67 million. This is \$0.33 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 offset by property assessment growth generating supplementary rates, lower expenditure attributable to lower building maintenance costs, staff vacancies, lower provisions for doubtful debts and \$1.9 million of favourable carried forward cash surplus from 2020/21.
- 2.10 The 2021/22 first quarter budget review included approved funding request for \$0.34 million and was funded from the forecast cumulative cash surplus.
- 2.11 As part of the second quarter budget review, we are proposing three options for proposed funding requests totalling \$1.01 million, \$1.65 million and \$1.75 million for Council consideration. This is to be funded from the forecast cumulative cash surplus.

3. RECOMMENDATION

PART 1

That Council:

- 3.1 Notes that following the second quarter 2021/22 budget review the organisation is projecting a full year cumulative cash surplus of \$2.67 million which is \$0.33 million unfavourable compared to budget of \$3.01 million.
- 3.2 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.
- 3.3 Notes Attachment 1 – Financial Statements with accompanying explanatory notes and Economic and Social Recovery Spend.
- 3.4 Approves up to \$330,000 of additional funding request (see attachment 2 – December 2021 Budget Requests for more details) including:
 - 3.4.1 \$30,000 to bring forward the review of the Play Space Strategy as approved and funded in Council’s Public Space Strategy.
 - 3.4.2 \$300,000 for Fishermans Bend Advisory Services

PART 2

That Council:



- 3.5 Approves \$84,000 for 2021/22 and a further \$226,000 in 2022/23 to commence a review of dog restrictions in open spaces including beaches.

PART 3

That Council:

- 3.6 Notes the following three options available to Council with respect to Commercial Tenants and South Melbourne Market Stallholders rent waiver extension:
- a. Option A - current rent relief at a 20% turnover impact threshold be extended to 15 March 2022 (Victorian Government set extension per the Commercial Tenancy Relief Scheme regulation). Funded from within existing allocation with no further impact to Council's full year cumulative cash surplus.
 - b. Option B - extend rent relief at a 30% turnover impact threshold to 30 June 2022 with a net reduction to full year cumulative cash surplus of \$640,000.
 - c. Option C - current rent relief at a 20% turnover impact threshold to 15 March 2022 and 30% turnover impact threshold to 30 June 2022 with a net reduction to full year cumulative cash surplus of \$740,000.
- 3.6.1 Resolves to pursue Option B and delegates to the Chief Executive Officer implementation of this option.

4. KEY POINTS/ISSUES

The Second 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 second 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 second quarter 2021/22 review expects Council to achieve a fully cumulative cash surplus for 2021/22 of \$2.67 million (excluding the additional initiatives subject to Council consideration), a decrease of \$0.33 million on Budget 2021/22 (Attachment 1).
- 4.2.5 A net favourable operating result of \$0.79 million:



- Net revenue reduction of \$2.47million mostly due to COVID-19 lockdown restrictions impacting parking revenue, rent from commercial tenants, market stallholder rent and hall hire.
- Favourable \$3.36 million of Open Space contributions from property development to be ringfenced in reserves and unexpected supplementary rates \$0.78 million (budget reduced for expected COVID-19 delays) are favourable offsets.
- Net expenditure reduction of \$3.26 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 decreased by \$2.09 million 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
- \$5.28 million Net reduction of project deferrals from 2020/21 and to 2022/23 mainly delays caused by COVID-19 restrictions, resourcing and procurement issues included 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.
- \$0.54 million of Projects not going ahead/savings including Cora Graves Accessibility (future use under consideration) and Blackspot Safety Improvement at Alma Road and Alexandra Street which was subject to external funding.

4.2.7 Reserves replenishment increased by \$6.35 million due to:

- \$2.49 million of drawdown on tied grants received in 2020/21 including Victorian Grants Commission funding, Wattie Watson Oval reconstruction, Point Ormond Playground and South Melbourne Market External Food Hall Upgrade.
- \$1.58 million of drawdown on project deferrals from 2020/21 including Activation of Public Space and Customer Experience Program.



- \$1.5 million of In Our BackYard reserve drawdown due to \$2 million contribution in 21/22 offset by \$0.5 million annual contribution. Funds have been flagged for the Wellington project conditional on additional other government funding.
- \$3.57 million increase to the Resort and Recreation Reserve from additional Development Contributions.
- \$5.7 million increase of project deferrals to 2022/23 including 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.

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 second 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	December 2021	Variance	Risk
Net Result %	4.0%	4.4%	0.4%	Low
Adjusted Underlying Result %	(2.0%)	(2.9%)	(0.9%)	High
Working Capital %	329%	347%	18%	Low
Internal Financing %	125%	159%	34%	Low
Indebtedness %	2.0%	1.9%	0.1%	Low
Capital Replacement %	161%	146%	(15.0%)	Medium
Infrastructure Renewal Gap %	144%	135%	(8.0%)	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 second quarter review forecasts a \$0.79 million improvement to the full year operating result to \$10.55 million. This is mainly due to \$3.3 million additional open space contributions offset by the impact of COVID restrictions; lower parking income by \$4.7 million and \$2.3 million of further targeted support.

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 second 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 %:

- 4.2.18 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 second quarter review shows an improvement to 347% 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 second quarter review indicates Council is expected to achieve a ratio of 159%, which is due to \$4.5 million of project deferrals to future years.

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 second 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 second quarter review indicates a reduction to 146% mainly due to the deferral of capital project expenditure to 2022/23, 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 second quarter review forecasts a reduction to 136% due to the deferral of capital project expenditure to 2022/23.

The second 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 Additional funding requests have been identified as part of the second quarter review for Council including three options for consideration totalling \$1.01 million, \$1.65 million and \$1.75 million (see attachment 2 – Budget Requests December 2021 for more details).
 - 4.4.1 Consideration of options to extend rent relief to commercial tenants, including the Palais Theatre and South Melbourne Market stallholders due to the ongoing impacts and disruption of COVID and the recent Omicron variant. The Victorian Government sets the Commercial Tenancy Relief Scheme at 30% turnover impact threshold, however Council currently provides relief at 20% turnover impact threshold.
 - Option a) is to continue in line with the State Government extension to 15 March 2022 at the 20% threshold at a cost of \$600,000 with no impact to the full year net cumulative cash surplus (previously funded).
 - Option b) is to extend rent relief to 30 June 2022 at the 30% threshold at a cost of \$1.24 million and a reduction to the full year net cumulative cash surplus \$640,000.
 - Option c) is to extend rent relief to 15 March at the 20% threshold and from 16 March to 30 June 2022 at the 30% threshold at a cost of \$1.34 million and a reduction to the full year net cumulative cash surplus \$740,000.
 - 4.4.2 A budget request of \$30,000 to commence the Play Space Strategy review that had been on hold until the Places for People: Public Space Strategy 2022-2032 was adopted by Council in December 2021. The actions in the existing Play Space Strategy 2011 have now been completed, are out of date and are no



longer required and a new Play Space Strategy is required to guide future upgrade, renewal and management of Council's play spaces. The funding will commence engagement of an external consultant to review and set the vision, policy context and framework for the future development of Council's play spaces and to prioritise play spaces for upgrade and renewal across the City of Port Phillip.

- 4.4.3 A budget request for \$300,000 for Fishermans Bend Advisory services to mitigate financial risk relating to a confidential item for Council consideration at the same meeting on 16 February 2022.
- 4.4.4 A budget request for a review of dog restrictions in open spaces including beaches for a total of \$310,000 of which \$84,000 required for 2021/22 in response to ongoing concerns and requests from the community regarding dog use of public space. The funding will engage a project manager to
- Review all existing on and off leash restrictions across Council's public space network, including beaches
 - Undertake benchmarking against other local government areas
 - Identify opportunities for new dog off-leash areas and sites where changes to restrictions could be implemented
 - Identify opportunities for fenced dog off-leash areas
 - Review of opportunities for a 'dogs prohibited' beach in winter
 - Design and deliver communications plan, informing the community of the consultation
 - Prepare a framework to guide responses to future community requests and for delivering future dog off-leash areas.

4.5 The total cost for all recommended initiatives is:

- Option a) rent relief, Play Space Strategy, Fishermans Bend Advisory Services and Dog Restrictions in Open Space review is \$1.01 million with a net impact to full year cumulative net cash surplus of \$0.414 million, leaving approximately \$2.29 million of cumulative cash surplus.
- Option b) rent relief, Play Space Strategy, Fishermans Bend Advisory Services and Dog Restrictions in Open Space review is \$1.65 million with a net impact to full year cumulative net cash surplus of \$1.05 million, leaving approximately \$1.64 million of cumulative cash surplus.
- Option c) rent relief, Play Space Strategy, Fishermans Bend Advisory Services and Dog Restrictions in Open Space review is \$1.75 million with a net impact to full year cumulative net cash surplus of \$1.15 million, leaving approximately \$1.54 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 The targeted economic and social recovery support complies with the Commercial Tenants Relief Scheme mandated by the Victorian Government.
- 6.2 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.
- 6.3 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 second quarter review forecasts a year end cash surplus of \$2.67 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 Option a) \$2.29 million, Option b) \$1.64 million or Option c) \$1.54 million.

8. ENVIRONMENTAL IMPACT

- 8.1 Requests for funding for the Play Space Strategy and the review of dog restrictions in open spaces including beaches will include consideration of environmental impacts as part of the strategy development and review process.

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 declared potential for a perceived conflict of interest in relation matters relating to Live Nation Australia (tenant of Palais Theatre) and has excluded himself from discussion and recommendations regarding this organisation.

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. Budget Requests December 2021**