



2020/21 MID-YEAR FINANCIAL REVIEW

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

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1. PURPOSE

- 1.1 To provide Council with the mid-year budget review and highlight changes that have occurred since the last quarterly review.

2. EXECUTIVE SUMMARY

- 2.1 A fiscal budget is adopted by Council for the following financial year by June 30 each year. An extension was provided by the Minister of Local Government for 2020/21 due to the uncertainty of COVID-19.
- 2.2 Budget 2020/21 was adopted at the 19 August 2020 Council meeting. It included the estimated financial impact of COVID-19 based on the first lockdown following extensive modelling and discussion with councillors and our community.
- 2.3 Budget 2020/21 addressed the forecast \$21 million revenue impact for 2020/21 due to COVID-19 by implementing several initiatives such as efficiency savings, service reductions, and a mix of capital portfolio reduction and deferral to future years.
- 2.4 Our commitment to supporting our community is demonstrated in Budget 2020/21 with the Economic and Social Recovery (Live Love Local) package of \$5.6 million adding to the \$2.8 million in support provided in 2019/20.
- 2.5 A further \$1.2 m of initiatives were endorsed in the first quarter review, which were funded from the \$1.7 million of savings from the one-off cancellation of the St Kilda Festival. A further \$70,000 was approved to Pavilion Australia to use a portion of the Triangle Carpark for a series of concerts at the cost of loss parking revenue.
- 2.6 This brings the total Council funded Economic and Social Recovery support for 2020/21 to \$6.97 million.
- 2.7 Since the Budget, the situation has been changing at a fast pace with a high degree of uncertainty and disruption. Our financial forecasts need to be continuously adjusted to reflect new information.
- 2.8 Following the Mid-Year Budget 2020/21 review, the organisation is projecting a full year net cash surplus of \$2.43 million. This compared favourably by \$1.30 million with the budgeted cash surplus of \$1.14 million. The cash surplus is impacted by net revenue reductions of \$0.56 million, net operating expenditure reductions of \$1.56 million, and net capital expenditure deferral of \$4.43 million (ringfenced in reserves).



- 2.9 Officers believe it is prudent to retain the surplus given significant uncertainty and risk in our operating environment and to provide capacity to support budget shocks or one-off expenditure on for instance future capital projects or upfront costs associated with the roll-out of the four bin waste management requirements.
- 2.10 Officers have received feedback about support that would make a difference as a result of the COVID-19 impact. There remains \$0.42 million of funds available from the cancellation of the 2021 St Kilda Festival to respond to needs raised by our community and local business.

3. RECOMMENDATION

That Council:

- 3.1 Notes that following the Mid-Year 2020/21 budget review the organisation is projecting a full year cumulative cash surplus of \$2.43 million which is \$1.30 million favourable compared to budget of \$1.14 million.
- 3.2 Notes **Attachment 1** – Financial Statements with accompanying explanatory notes and Aged Debtor Balance Report.
- 3.3 Notes that the Live Love Local (St Kilda Festival fund) balance of \$0.42 million has been reduced by \$70,000 for approval under CEO delegation (in consultation with Councillors) for Pavilion Australia (on behalf of the Palais/Live Nation) to use a portion of the Triangle Carpark for a series of concerts, and the 3-month extension of rental support has been enacted but funded from lower than expected South Melbourne Market stallholder relief.
- 3.4 Notes that officers have received feedback from our community and local businesses as a result of the continued impact of COVID-19 seeking support for the following initiatives:
 - 3.4.1 Ormond Road Trader Association Seed Funding (\$20,000)
 - 3.4.2 Carlisle Street Trader Association Seed Funding (\$20,000)
 - 3.4.3 Clarendon Street Trader Association Seed Funding (\$20,000)
 - 3.4.4 St Kilda Road Tourism Initiatives (\$25,000)
 - 3.4.5 High Street Business Support Beautification/Welcoming projects (\$100,000)
 - 3.4.6 St Kilda Blues Festival (\$90,000)
 - 3.4.7 Community Public Art Fund (\$50,000)
 - 3.4.8 Esplanade Market fee reduction for six months (\$38,400)
 - 3.4.9 Australian National Academy of Music (ANAM) security and staff support for events (\$23,661).

4. KEY POINTS/ISSUES

Mid-year 2020/21 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 Mid-year 2020/21 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 2020/21 review expects Council to achieve a cumulative cash surplus for 2020/21 of \$2.43 million (excluding the additional initiatives subject to Council consideration), an increase of \$1.30 million on Budget 2020/21 (**Attachment 1**).
- 4.2.5 A net favourable operating result by \$1.0 million:
 - Net revenue reduction of \$0.56 million mostly due to COVID-19 lockdown restrictions impacted parking revenue, rent from commercial tenants, market stallholder rent and hall hire.
 - Unbudgeted funding from the Victorian and Commonwealth Governments and unexpected supplementary rates (budget reduced for expected COVID-19 delays) are favourable offsets.
 - Net expenditure savings of \$1.56 million due to enterprise vacant positions not filled during the lockdown period, lower expenditure related to lower parking revenue (doubtful debts, registrations of infringements), landfill levy increase delayed until 2021/22 financial year, and deferral of operating portfolio projects to 2021/22.
- 4.2.6 Net Capital Portfolio spend reduced by \$4.43 million mainly due to projects including the EcoCentre redevelopment (Victorian Government funding has not materialised), Luna Park and Palais Hostile Vehicle Mitigation/Revitalisation, Garden City Shared Bike Path, and South Melbourne Market Compliance works.
- 4.2.7 Reserves drawdown decreased by \$4.29 million due to project works deferred to 2021/22.
- 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 Mid-year 2020/21 review indicates an overall medium risk financial sustainability rating for Council highlighted by the seven VAGO financial indicators below:

Indicator	Budget 2020/21	December 2020	Variance	Risk
Net Result %	(7.9%)	(7.5%)	0.4%	Medium
Adjusted Underlying Result %	(11.0%)	(10.8%)	0.2%	High
Working Capital %	227%	256%	29%	Low
Internal Financing %	71%	96%	25%	Medium
Indebtedness %	1.5%	2.2%	(0.7%)	Low
Capital Replacement %	123%	106%	(17%)	Medium
Infrastructure Renewal Gap %	117%	99%	(18%)	Medium
Overall financial sustainability risk rating	Medium	Medium	No change	Medium

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 \$17.3 million operating deficit was budgeted for 2020/21 due to the inclusion of:

- \$9.6 million non-recurrent Customer Experience Program expenditure (this project will provide better and more responsive customer service whilst delivering a more efficient enterprise). In accordance with the Council approved Business Case this program is largely funded from reserves to be repaid over time from efficiency savings – this is reflected in the long-term financial plan.
- The remaining \$7.7 million of operating deficit mainly relates to the financial impact of COVID-19 which has been addressed from a mix of project scope reductions and deferrals to future years.



- 4.2.14 The mid-year review forecasts an improvement to the full year operating result by \$1.0 million to a deficit of \$16.3 million, (7.5%) of total income. The net revenue reduction of \$0.56 million (parking revenue and rent relief) are fully offset by \$1.5 million of lower expenditure (staff vacancies, landfill levy increase delays, parking lodgement costs, and deferral of Wattie Watson Oval reconstruction).

Adjusted Underlying Result %:

- 4.2.15 This assesses 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 was budgeted for 2020/21 due to the inclusion of the non-recurrent Customer Experience Program expenditure and because Council 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 mid-year review forecasts an improvement due to the same factors highlighted in the Net Result ratio.

Working 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 2020/21 includes a working capital ratio of 227%.
- 4.2.20 The mid-year review shows an improvement to 256% mainly due to deferred capital expenditure to be incurred in 2021/22.

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 2020/21 (71%) 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.
- 4.2.23 The mid-year review indicates Council is expected to achieve a ratio of 96%, which is a 25% improvement due to project deferrals.

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 1.5% for Budget 2020/21 is significantly lower than the 40% target.
- 4.2.26 The mid-year review shows Council is on track to achieve budget.



Capital Replacement %:

- 4.2.27 The capital replacement ratio assesses whether Council's overall spend in renewing, growing and improving its asset base is enough
- 4.2.28 The capital replacement ratio assesses whether Council's overall spend in renewing, growing and improving its asset base is enough
- 4.2.29 The Budget 2020/21 includes a ratio of 123%.
- 4.2.30 The mid-year review indicates a reduction to 106% mainly due to the net capital expenditure reduction of \$4.43 million (works deferred to 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 2020/21 ratio of 117% indicates enough provision in the capital program for asset renewal and upgrade.
- 4.2.33 The mid-year review forecasts a decrease to 99%, which is lower than the 100% required for a low risk rating. This is mainly caused by the net capital expenditure reduction of \$4.43 million to be deferred to 2021/22.

The Mid-year financial review result

- 4.3 The mid-year financial review process is also used to identify and assess urgent and unbudgeted expenditure proposals or in the CEO report. None identified in this report.

Further initiatives from one-off cancellation of 2021 St Kilda Festival

- 4.4 On Wednesday 2 December 2020 Council approved \$1.21 million of initiatives utilising of the \$1.7 million available. This leaves \$0.49 million unallocated.
- 4.5 Under CEO delegation (following consultation with Councillors), approval was granted to Pavilion Australia (on behalf of the Palais/Live Nation) to use a portion of the Triangle Carpark for a series of concerts from 8 to 29 April inclusive. This provides an opportunity to support live music as well as the Palais at the cost of loss parking revenue estimated to be \$70,000 for 144 spaces over 24 days.
- 4.6 There remains \$0.42 million of budget available to allocate in response to needs raised by our community and local businesses as a result of continued impact of COVID-19.
- 4.7 A set of criteria was subsequently developed to support the preparation of this proposal for the consideration of Council.
- 4.8 The criteria included that each initiative proposed must:
 - 4.8.1 Be unable to access State or Federal funds for this purpose
 - 4.8.2 Support economic or cultural recovery of our City
 - 4.8.3 Not replicate initiatives already being undertaken by Council
 - 4.8.4 Make a discernible difference to our trader/business or cultural community
 - 4.8.5 Be easy to administer



4.8.6 Be measurable in relation to impact

4.8.7 Each initiative proposed should ideally make a longer-term contribution to the cultural or economic life of the City

4.9 Officers have received feedback about support that would make a difference as a result of the COVID-19 impact. Some of these ideas have been considered by Council in December 2020, however stakeholders have indicated that these initiatives would make an impact from their perspective.

The following initiatives have been recommended and endorsed by Council's Business Advisory group or trader interviews in neighbourhood strips throughout December.

4.9.1 Ormond Road Trader Association Seed Funding (\$20,000)

4.9.2 Carlisle Street Trader Association Seed Funding (\$20,000)

4.9.3 Clarendon Street Trader Association Seed Funding (\$20,000)

If this idea was progressed for Ormond Rd, Clarendon St and Carlisle St would include details and KPIs including:

- At least six Traders to attend a series of meetings demonstrating interest in investigating a Trader Association
- List to be provided to Traders to interview and select their preferred partner (Consultant/Organisation)
- \$10K to be paid to the chosen Consultant/Organisation to commence consultation. This Consultant or Organisation would visit all Traders on the strip and commence by setting up the right governance and financial structures for a Trader Group. This amount will pay for three meetings with the establishment committee; drafting the Constitution, lodging required paperwork (including minuting the 'initial' meeting) to incorporate and setup MyCAV records with Consumer Affairs; provide draft and final policies and a policy framework for revision and attend the first couple of meetings to ensure sound meeting practices are established.
- \$5K instalment to pay for facilitation and development of strategic plan
- \$5K for Member register - update member register monthly, ensure membership complies with constitution, review membership process (\$440 / month x six months) and \$2360 for promotion of Association's activities
- Should any stages of the process falter, the next instalment would not be granted.

4.9.4 St Kilda Road Tourism Initiatives (\$25,000)

If this idea was progressed these funds would be used to promote Stay and Play packages to Regional Victoria audiences via a Regional Radio campaign for a one-month period commencing 1 March 2021. Local participating businesses would be asked to offer one free experience that could be run as a competition package to help drive visitation and awareness and work with CoPP based restaurants would occur to incorporate dining packages.

The campaign would be measured on audience numbers, reach and bookings made.



- 4.9.5 High Street Business Support and Beautification/Welcoming projects (\$100,000)

The following initiatives have been proposed by members of our creative panels and communities.

- 4.9.6 St Kilda Blues Festival (\$90,000)
- 4.9.7 Community Public Art Fund (\$50,000)

Other initiatives:

- 4.9.8 The Victorian Government announced a 3-month extension of rent support. It is expected the lower than budgeted South Melbourne Market Stallholder relief will be used as offsets.
- 4.9.9 Esplanade Market stallholder fee reduction for six months (\$38,400)
- 4.9.10 Security and additional staff costs for free community concerts held at St Kilda Town Hall by ANAM (\$23,661).

4.10 The total cost of all above initiatives is \$0.50 million.

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 economic initiatives proposed under the *Live Love Local* program have been developed in consultation with Council's Prosperous Port Phillip Business Advisory Group and local traders.
- 5.3 The cultural initiatives have been developed with feedback from the Art and Soul Advisory Body and Council's First Nations Advisory Group.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 As outlined in section 4, the Council's financial sustainability risk is considered medium based on projections resulting from the mid-year review. 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 mid-year review forecasts a year end cash surplus of \$2.4 million which compared favourable to the budget.
- 7.2 No urgent or unbudgeted expenditure proposals have been put forward by Officers.
- 7.3 There remains \$0.49 million of unallocated budget from the cancellation of the 2021 St Kilda Festival. Officers have received feedback about support that would make a difference as a result of COVID-19.



8. ENVIRONMENTAL IMPACT

8.1 There are no material environmental impacts associated with this report.

9. COMMUNITY IMPACT

9.1 Council has approved up to \$6.97 million of initiatives to date in current financial year 2020/21 that 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 No officers involved in the preparation of this report have any direct or indirect interest in the matter.

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ATTACHMENTS 1. Financial Statements with accompanying explanatory notes
incl Aged Debtor Report - December 2020