



14.3 FINANCIAL UPDATE: THIRD QUARTER 2020-21 FINANCIAL YEAR

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

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1. PURPOSE

- 1.1 To provide Council with the Third Quarter budget review and highlight changes that have occurred since the mid-year financial 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 \$1.67 m of initiatives were endorsed following the first quarter and mid-year review, which were funded from the \$1.7 million of savings from the one-off cancellation of the St Kilda Festival.
- 2.6 This brings the total Council funded Economic and Social Recovery support for 2020/21 to \$7.35 million.
- 2.7 Since the Budget was adopted, 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 Third Quarter Budget 2020/21 review, the organisation is projecting a full year net cash surplus of \$2.91 million. This compared favourably by \$1.77 million with the budgeted cash surplus of \$1.14 million. The cash surplus is impacted by net revenue increase of \$2.02 million (\$1.93 million of open space contributions to be ringfenced in reserves), net operating expenditure reductions of \$3.80 million (\$2.76m relates to lower non-cash depreciation), and net capital expenditure deferral of \$10.9 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.



3. RECOMMENDATION

That Council:

- 3.1 Notes that following the Third Quarter 2020/21 budget review the organisation is projecting a full year cumulative cash surplus of \$2.91 million which is \$1.77 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 – March 2021.

4. KEY POINTS/ISSUES

Third Quarter 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 Third Quarter 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 Third Quarter 2020/21 review expects Council to achieve a cumulative cash surplus for 2020/21 of \$2.91 million, an increase of \$1.77 million on Budget 2020/21 (**Attachment 1**).
- 4.2.5 A net favourable operating result by \$5.82 million:
 - Net revenue increase of \$2.02 million mainly due to \$2.65 million of unbudgeted operating grants (offset by matching additional expenditure), \$2.3 million open space contributions (ringfenced in reserves for future open space enhancements), and lower income due to COVID-19 lockdown restrictions impacted parking income, rent from commercial tenants, market stallholder rent and hall hire.
 - Net expenditure savings of \$3.80 million due to forecast reduction to depreciation (non-cash) of \$2.76 million, 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 \$10.9 million mainly due to project deferrals 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 \$12.58 million mainly due to project spend deferred to 2021/21.
- 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 Third Quarter 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	March 2021 Forecast	Variance	Risk
Net Result %	(7.9%)	(5.2%)	2.7%	Medium
Adjusted Underlying Result %	(11.0%)	(8.8%)	2.2%	High
Working Capital %	227%	258%	31%	Low
Internal Financing %	71%	108%	37%	Low
Indebtedness %	1.5%	2.1%	(0.6%)	Low
Capital Replacement %	123%	76%	(47%)	High
Infrastructure Renewal Gap %	117%	84%	(33%)	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 Third Quarter review forecasts an improvement to the full year operating result by \$5.82 million to a deficit of \$11.49 million, 5.2 percent of total income.
- Net revenue increase of \$2.02 million mainly due to \$2.65 million of unbudgeted operating grants (offset by matching additional expenditure), \$2.3 million open space contributions (ringfenced in reserves for future open space enhancements), and lower income due to COVID-19 lockdown restrictions impacted parking income, rent from commercial tenants, market stallholder rent and hall hire.
 - Net expenditure savings of \$3.80 million due to forecast reduction to depreciation (non-cash) of \$2.76 million, 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.

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 Third Quarter 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 percent.
- 4.2.20 The Third Quarter review shows an improvement to 258 percent mainly due to deferred capital expenditure to be incurred in 2021/22.

Internal Financing %:

- 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 percent) 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 Third Quarter review indicates Council is expected to achieve a ratio of 108 percent, which is a 37 percent improvement due to project deferrals forecast at \$10.9 million.

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 percent for Budget 2020/21 is significantly lower than the 40 percent target.
- 4.2.26 The Third Quarter 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 Budget 2020/21 includes a ratio of 123 percent.
- 4.2.29 The Third Quarter review indicates a reduction to 76 percent mainly due to the net capital expenditure reduction of \$10.9 million (works deferred to 2021/22).

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 2020/21 ratio of 117 percent indicates enough provision in the capital program for asset renewal and upgrade.
- 4.2.32 The Third Quarter review forecasts a decrease to 84 percent, which is lower than the 100 percent required for a low risk rating. This is mainly caused by the net capital expenditure reduction of \$10.9 million to be deferred to 2021/22.

- Design changes to respond to a Covid-19 future operating environment.
- Consolidation of works across project staging to save costs.
- Design changes on receipt of soil testing results, fire engineering services approvals and refinements to concept design.
- Funding from the Victorian State Government for projects that was not approved or delayed.
- Procurement and contract award delays caused by Covid-19 interruptions or pricing above budget provisions.

- 4.3 The Third Quarter 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.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The budget review has been conducted after engagement with relevant stakeholders across the business.



6. LEGAL AND RISK IMPLICATIONS

6.1 As outline 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 Third Quarter review forecasts a year end cash surplus of \$2.91 million which compared favourably to the budget.

7.2 No urgent or unbudgeted expenditure proposals have been put forward by Officers.

7.3 There remains \$57,000 of unallocated budget from the cancellation of the 2021 St Kilda Festival. Details of the funding allocations are included in Attachment 2.

8. ENVIRONMENTAL IMPACT

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

9. COMMUNITY IMPACT

9.1 There are no material community impacts associated with this report.

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 Not applicable.

11.2 COMMUNICATION

11.2.1 Not applicable.

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: 34/11/22

ATTACHMENTS

1. Attachment 1 - Monthly Financial Report March 2021- Council Meeting 5 May 2021
2. Attachment 2 - Funding Allocations from St Kilda Festival Moneys